UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

**FORM 10-K**

**(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended October 31, 2004

OR

**( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to_____

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Commission File Number 1-4146-1

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**NAVISTAR FINANCIAL CORPORATION**
(Exact name of Registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **36-2472404** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 2850 West Golf Road Rolling Meadows, Illinois | 60008 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code 847-734-4000
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes X No__

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. __

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes __ No X

As of January 31, 2005, the number of shares outstanding of the registrant's common stock was 1,600,000.

Documents Incorporated by Reference
Portions of the Proxy Statement to be delivered to shareowners in connection with the 2004 Annual Meeting of Shareowners (Part III)

THE REGISTRANT IS A WHOLLY-OWNED SUBSIDIARY OF INTERNATIONAL TRUCK AND ENGINE CORPORATION, WHICH IS A WHOLLY-OWNED SUBSIDIARY OF NAVISTAR INTERNATIONAL CORPORATION, AND MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION I(1) (a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH THE REDUCED DISCLOSURE FORMAT.

**NAVISTAR FINANCIAL CORPORATION**
**AND SUBSIDIARIES**

**INDEX**



(A) - Omitted or amended as the registrant is a wholly-owned subsidiary of International Truck and Engine Corporation, which is a wholly-owned subsidiary of Navistar International Corporation, and meets the conditions set forth in General Instructions I (1) (a) and (b) of Form 10-K and is, therefore, filing this Form with the reduced disclosure format.

# PART I

## Item 1. Business

The registrant, Navistar Financial Corporation ("NFC"), was incorporated in Delaware in 1949 and is a wholly-owned subsidiary of International Truck and Engine Corporation (“International”), which is a wholly-owned subsidiary of Navistar International Corporation (“Navistar”). As used herein, the "Corporation" refers to Navistar Financial Corporation and its wholly-owned subsidiaries unless the context otherwise requires.

The Corporation is a commercial financing organization that provides wholesale, retail and lease financing in the United States for sales of new and used trucks sold by International and International’s dealers. The Corporation also finances wholesale accounts and selected retail accounts receivable of International. Sales of new products (including trailers) of other manufacturers are also financed regardless of whether they are designed or customarily sold for use with International’s truck products.

On November 30, 2001, the Corporation completed the sale of all of the stock of Harco National Insurance Company ("Harco"), a wholly-owned insurance subsidiary, to IAT Reinsurance Syndicate Ltd., a Bermuda reinsurance company. The Harco insurance segment was accounted for as a discontinued operation, and accordingly, amounts in the consolidated financial statements and notes thereto, for all periods affected, have been restated to reflect discontinued operations accounting.

### Periodic Reports Access

Navistar maintains a website with the address www.internationaldelivers.com. The Corporation is not including the information contained on Navistar’s website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K. The Corporation makes available, free of charge, through Navistar’s website its Annual Report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after the Corporation electronically files such material with, or furnishes such material to, the Securities and Exchange Commission.

The Corporation complies with the Code of Ethics posted on Navistar’s website. This Code of Ethics applies to all employees, directors and officers, including the chief executive officer and chief financial officer. The Corporation intends to disclose any amendments to, or waivers from, its Code of Ethics that are required to be publicly disclosed pursuant to the rules of the Securities and Exchange Commission.

The Board of Directors of Navistar documented its governance practices in adopting the Board Corporate Governance Guidelines. The governance guidelines, as well as the charters for the key committees of the board (Finance Committee, Audit Committee, and the Compensation and Governance Committee) may also be viewed on Navistar’s website. Copies of such documents will be sent to shareholders free of charge upon written request of the corporate secretary at the address shown on the cover page of this Form 10-K.

## Item 2. Properties

The Corporation’s properties principally consist of office equipment and leased office space in Schaumburg, Illinois; Rolling Meadows, Illinois; Duluth, Georgia and Frisco, Texas. The office equipment owned and in use by the Corporation is not significant in relation to the total assets of the Corporation.

## Item 3. Legal Proceedings

The Corporation is subject to various claims arising in the ordinary course of business, and is party to various legal proceedings, which constitute ordinary routine litigation incidental to the business of the Corporation. In

**Item 3. Legal Proceedings (continued)**

the opinion of the Corporation's management, none of these proceedings or claims are material to the business or the financial condition of the Corporation.

On February 9, 2005, the Corporation received a notice from the staff of the United States Securities and Exchange Commission stating that it was conducting an informal inquiry into the Corporation's restatement of financial results for the fiscal years 2002 and 2003 and the first three quarters of fiscal 2004 ("restatement period"). The staff has requested that the Corporation voluntarily produce documents and information related to the restatement period. The Corporation is fully cooperating with this request. Given the preliminary nature of the matter, the Corporation is not able to predict what impact, if any, this inquiry will have on the Corporation.

**Item 4. Submission of Matters to a Vote of Security Holders**

Intentionally omitted. See the index page of this report for an explanation.

## PART II

**Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters**

As of October 31, 2004, International owned all shares of NFC's issued and outstanding capital stock. No shares are reserved for officers and employees, or for options, warrants, conversions and other rights. NFC did not pay any dividends in fiscal 2004 or 2002. NFC paid $50.0 million in dividends to International during fiscal 2003.

**Item 6. Selected Financial Data**

Intentionally omitted. See the index page of this Report for explanation.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Forward-looking statements**

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act, Section 21E of the Exchange Act, and the Private Securities Litigation Reform Act of 1995 that are subject to risks and uncertainties. You should not place undue reliance on those statements because they are subject to numerous uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control, and such forward-looking statements only speak as of the date of this Form 10-K. Forward-looking statements include information concerning our possible or assumed future results of operations, including descriptions of our business strategy. These statements often include words such as "believe," "expect," "anticipate," "intend," "plan," "estimate" or similar expressions. These statements are based on assumptions that we have made in light of our experience in the industry as well as our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances. As you read and consider this Form 10-K, you should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties and assumptions. Although we believe that these forward-looking statements are based on reasonable assumptions, you should be aware that many factors could affect our actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements.

**Restatement**

The accompanying management's discussion and analysis gives effect to the restatement of the consolidated financial statements for the years ended October 31, 2003 and 2002, as discussed in Note 2 to Consolidated Financial Statements.

**Off-Balance Sheet Arrangements**

The Corporation enters into guarantees and sales of receivables that appropriately are not reflected on our balance sheet, which have or will have an effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

***Guarantees***

The Corporation periodically guarantees the outstanding debt of affiliates. The guarantees allow for diversification of funding sources for the affiliates. As of October 31, 2004, the Corporation has numerous guarantees related to Navistar's three Mexican finance subsidiaries, Servicios Financieros Navistar, S.A. de C.V. ("SOFOL"), Arrendadora Financiera Navistar, S.A. de C.V. ("Arrendadora") and Navistar Comercial S.A. de C.V. ("Commercial"). The Corporation has no recourse as guarantor in case of default. As of October 31, 2004, the Corporation's maximum exposure under these guarantees is the total amount outstanding at that date, $134.4 million.

On July 30, 2004, the Corporation, through Navistar Financial Retail Receivables Corporation ("NFRRC"), sold retail note receivables to a conduit. In order to match fund the fixed rate receivables with the variable rate debt of the conduit, the conduit entered into an interest rate swap agreement on the anticipated cash flows from the receivables. NFC, as servicer, has indemnified the conduit for the impact any variance in those cash flows has on the swap settlement. As of October 31, 2004, the Corporation has not recorded any liability related to this indemnification.

***Sales of Receivables***

The Corporation securitizes and sells receivables through NFRRC, Navistar Financial Securities Corporation ("NFSC"), Truck Retail Accounts Corporation ("TRAC") and Truck Engine Receivables Financing Co. ("TERFCO"), all special purpose, wholly-owned subsidiaries ("SPC's") of the Corporation, to fund its business operations. The securitization market provides the Corporation with a cost-effective source of funding. In a typical securitization transaction, the Corporation sells a pool of finance receivables to a SPC that establishes a qualifying special purpose entities ("QSPE") consistent with the requirements of Statements of Financial Accounting Standards ("SFAS") No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". The SPC then transfers the receivables to the QSPE, generally a trust, in exchange for proceeds from interest-bearing securities, commonly called asset-backed securities ("ABS"). These securities are issued by the QSPE and are secured by future collections on the sold receivables. The sales of receivables in each securitization constitute sales under accounting principles generally accepted in the United States of America, with the result that the sold receivables are removed from the Corporation's balance sheet and the investor's interests in the related trust or conduit are not reflected as liabilities.

The Corporation often retains interests in the securitized receivables. The retained interests may include senior and subordinated securities, undivided interests in wholesale receivables, restricted cash held for the benefit of the QSPE's, and interest-only strips. The Corporation's retained interests will be the first to absorb any credit losses on the sold receivables because the Corporation retains the most subordinated interests in the QSPE, including subordinated securities, the right to receive excess spread (interest-only strip) and any residual or remaining interests of the QSPE after all asset-backed securities are repaid in full. The Corporation's exposure to credit losses on the sold receivables is limited to its retained interests. The SPC's assets are available to satisfy the creditors' claims prior to such assets becoming available for the SPC's own uses or to the Corporation or affiliated companies. The Corporation is under no obligation to repurchase any sold receivable that becomes delinquent in payment or otherwise is in default. The holders of the asset-backed securities have no recourse to the Corporation or its other assets for credit losses on sold receivables and have no ability to require the Corporation to repurchase their securities. The Corporation does not guarantee any securities issued by OSPE's. The Corporation, as seller and the servicer of the finance receivables is obligated to provide certain representations and warranties regarding the receivables. Should any receivables fail to meet these representations and warranties, the Corporation, as servicer, is required to repurchase the receivables.

*Risks to Future Sales of Receivables*

The Corporation relies heavily on securitization for cost effective funding of its operations. The Corporation's ability to sell its receivables may be dependent on the following factors: the volume and credit quality of receivables available for sale, the performance of previously sold receivables, general demand for the type of receivables the Corporation offers, market capacity for the Corporation sponsored investments, accounting and regulatory changes, the Corporation's debt ratings and the Corporation's ability to maintain back-up liquidity facilities for certain securitization programs. If as a result of any of these or other factors, the cost of securitized funding significantly increased or securitized funding were no longer available to the Corporation, the Corporation's operations, financial condition and liquidity could be adversely impacted.

**Contractual Obligations**

The following table provides aggregate information about the Corporation's outstanding contractual obligations and other long-term liabilities as of October 31, 2004:

| Due in Fiscal | 2005 | 2006-2007 | 2008-2009 | After 2010 | Total |
|---|---|---|---|---|---|
| Senior and Subordinated Debt | $ 570.5 | $ 739.1 | $ 15.1 | $ 0.5 | $ 1,325.2 |
| Operating Leases | 2.0 | 2.9 | 1.9 | 4.8 | 11.6 |
| Total | 572.5 | 742.0 | 17.0 | 5.3 | 1,336.8 |

The table above does not include interest obligations because the Corporation does not have any fixed interest payments. The Corporation's interest obligations are based on current interest rates and outstanding amounts.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

**Results from Continuing Operations**

Results from continuing operations for the last three years were as follows:

| Millions of Dollars | 2004 | As Restated 2003 | As Restated 2002 |
|---|---|---|---|
| Gains on sales of receivables | **$ 25.9** | $ 46.3 | $ 16.4 |
| Income related to sales of finance receivables | **53.5** | 66.9 | 35.4 |
| Cost of borrowing | **48.7** | 57.5 | 66.1 |
| Income before taxes | **102.3** | 98.8 | 67.7 |
| Income from continuing operations | **61.1** | 57.9 | 39.1 |
| | | | |
| **Other Financial Data:** | | | |
| Return on average equity | **15.8%** | 16.4% | 11.4% |
| Retail notes and finance lease receivables sold, net of unearned finance income | **$ 1,120.0** | $ 1,705.0 | $ 1,000.0 |

The gains on sales of receivables in 2004 were lower than in 2003 primarily because of lower receivable sales volume and higher rates on the asset-backed securities. In 2004, the Corporation sold $1,120.0 million of retail notes and finance lease receivables compared to $1,705.0 million in 2003. The gains on sales of receivables on the sales in 2003 were higher than in 2002 primarily because of higher sales volume and lower rates on the asset-backed securities.

Borrowing costs decreased 15.3% in 2004 to $48.7 million and 13.0% in 2003 to $57.5 million primarily due to lower average receivable funding requirements and lower average interest rates. The Corporation's weighted average interest rate on senior and subordinated debt was 3.1% in 2004, 3.6% in 2003 and 4.0% in 2002. The decrease in the Corporation's weighted average interest rate is primarily a result of lower LIBOR. The ratio of debt to equity was 3.1:1 and 4.1:1 as of October 31, 2004 and 2003, respectively.

Provision for losses on receivables totaled $8.2 million in 2004, a reduction of $7.6 million from the $15.8 million recognized in 2003. The decrease in provision was primarily due to overall improvement in portfolio performance and improved recoveries in the used truck markets.

**Financing Condition**

*Financing Volume and Finance Market Share*

In fiscal 2004, the Corporation's net retail note and finance lease originations were $1,385.6 million, compared with $1,112.7 million in fiscal 2003, an increase of 24.5% from 2003. The Corporation's finance market share of new International trucks sold in the U.S. decreased slightly to 15.5% at October 31, 2004 compared to 15.7% at October 31, 2003; however, net serviced retail notes and finance leases balances were $2,757.7 million and $2,506.5 million as of October 31, 2004 and 2003, respectively. Originations increased despite relatively constant finance market share primarily as a result of higher sales volume by International's dealers.

In fiscal 2003, the Corporation's net retail note and finance lease originations were $1,112.7 million, an increase of 11.0% from 2002. Originations increased despite relatively constant finance market share primarily as a result of higher sales volume.

The Corporation provided 95% of the wholesale financing of new trucks sold to International's dealers in fiscal 2004 and 96% in 2003. Wholesale note originations were $4,312.4 million in fiscal 2004, compared with $3,168.7 million fiscal 2003, an increase of 36.1%. Serviced wholesale notes balances were $1,305.2 million and $860.7 million as of October 31, 2004 and 2003, respectively. These increases reflect International's higher sales to its dealers in the United States.

**Funds Management**

The Corporation has traditionally obtained the funds to provide financing to International's dealers and retail customers from sales of finance receivables, short and long-term bank borrowings, and medium and long-term debt. The Corporation's current debt ratings have made sales of finance receivables the most economical source of funding.

***Credit Ratings***

The Corporation's debt ratings as of October 31, 2004 are as follows:

| | Fitch | Moody's | Standard and Poor's |
|---|---|---|---|
| Senior unsecured debt | BB | Ba3 | BB- |
| Subordinated debt | B+ | B2 | B |
| Outlook | Stable | Stable | Stable |

***Funding Facilities***

Receivable sales are a significant source of funding. The Corporation sells receivables to SPC's. Through the asset-backed public market and private placement sales, the Corporation has been able to fund its operating needs at rates, which are more economical than those available to the Corporation in the public unsecured bond market. These SPC's are separate corporate entities and their assets will be available, first and foremost, to satisfy the claims of their creditors.

The Corporation sells retail notes and finance leases through Navistar Financial Retail Receivables Corporation ("NFRRC"), a special purpose, wholly-owned subsidiary of the Corporation. During fiscal 2004 and 2003, the Corporation sold $1,120.0 million and $1,705.0 million, respectively, of retail notes and finance leases to an owner trust which, in turn, issued asset-backed securities that were sold to investors. As of October 31, 2004, the remaining shelf registration available to NFRRC for the public issuance of asset-backed securities was $4,000.0 million.

Navistar Financial Securities Corporation ("NFSC"), a special purpose, wholly-owned subsidiary of the Corporation, has in place, as of October 31, 2004, a revolving wholesale note trust that provides for the funding of up to $1,186.3 million of eligible wholesale notes. The trust is comprised of a $200.0 million tranche of investor certificates maturing in 2008, three $212.0 million tranches of investor certificates maturing in 2005, 2006, and 2007, variable funding certificates with a maximum capacity of $200.0 million maturing in February 2005 and a seller certificate of $150.3 million. As of October 31, 2004, the Corporation had utilized $1,132.3 million of the revolving wholesale note trust.

During the second quarter of 2004, Truck Retail Accounts Corporation ("TRAC"), a special purpose, wholly–owned subsidiary of the Corporation, obtained financing for its retail accounts with a bank conduit that provides for the funding of up to $100.0 million of eligible retail accounts. The revolving retail account facility expires in April 2005. The sales of retail accounts under TRAC constitute sales under generally accepted accounting principles in the United States of America, with the result being sold accounts are removed from the Corporation's balance sheet and the investor's interests are not reflected as liabilities. As of October 31, 2004, this facility was fully utilized.

Truck Engine Receivables Financing Co. ("TERFCO"), a special purpose, wholly-owned subsidiary of the Corporation, has in place a trust that provides for the funding of $100.0 million of unsecured trade receivables generated by the sale of diesel engines and engine service parts from International to Ford Motor Company. This facility, which will expire in 2005, was fully utilized as of October 31, 2004.

Truck Retail Instalment Paper Corp. ("TRIP"), a special purpose, wholly-owned subsidiary of the Corporation, issued $500.0 million of senior and subordinated floating rate asset-backed notes on October 16, 2000, which was fully utilized as of October 31, 2004. The notes will expire in October 2005. The proceeds were used to establish a revolving retail warehouse facility to fund the Corporation's retail notes and retail leases, other than fair market value leases. The Corporation retains a repurchase option against the retail notes and leases sold into TRIP. Due to the nature of the repurchase option, TRIP's assets and liabilities are consolidated.

In June 2004, International Truck Leasing Corporation ("ITLC"), a special purpose, wholly-owned subsidiary of the Corporation, was established to provide for the funding of certain leases. As of October 31, 2004, $20.0 million had been funded through this subsidiary. ITLC's assets are available to satisfy its creditors' claims prior to such assets becoming available for ITLC's uses or to the Corporation or affiliated companies.

The Corporation also has an $820.0 million contractually committed bank revolving credit facility that will mature in December 2005. As of October 31, 2004, the Corporation utilized $697.0 million of this facility, $25.0 million of which was utilized by Navistar's Mexican finance subsidiaries.

Navistar assumed the $220.0 million of 4.75 percent convertible subordinated debt due in 2009 from the Corporation in June 2004. As compensation for the assumption of this debt, the Corporation paid Navistar $170.0 million in cash. Navistar's assumption of the Corporation's debt resulted in an $11.9 million increase in paid-in capital.

The failure of the Corporation and its affiliates to complete their respective Annual Reports on Form 10-K and deliver those reports and related required information to their respective lenders by January 29, 2005, has resulted in one or more defaults under the revolving credit and TRAC agreements. On January 31, 2005, the Corporation received a waiver of the existing defaults under both agreements. The waiver permits the Corporation to incur additional borrowings under the agreements through February 28, 2005.

In the event that the Corporation has not cured any defaults by February 28, 2005, it will again no longer be able to incur additional indebtedness under the agreements unless it shall have obtained subsequent waivers. In the event that the Corporation does not cure any defaults by March 1, 2005 (unless it shall have obtained an additional waiver), an event of default shall have occurred under the credit and TRAC agreements and the administrative agent or the lenders will have the ability to terminate the facilities and demand immediate payment of all amounts outstanding under the agreements. Such a demand for payment would result in defaults under numerous other credit facilities and other agreements of the Corporation and its affiliates. The Corporation believes that the defaults will be cured prior to the expiration of the waivers through the delivery of the Annual Reports on Form 10-K and the related information.

## Critical Accounting Policies

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the use of estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. The significant accounting principles which management believes are the most important to aid in fully understanding the Corporation's financial results are included below. See the Notes to Consolidated Financial Statements for a more detailed description of other accounting policies.

- ***Allowance for Losses***

  The allowance for losses is established through a charge to the provision for losses. The allowance is an estimate of the amount required to absorb losses on the existing portfolio of finance receivables and operating leases that may become uncollectible. The allowance is maintained at an amount management considers appropriate in relation to the outstanding portfolio based on factors such as overall portfolio credit risk quality, historical loss experience, and current economic conditions. Finance receivables and operating leases are charged off to the allowance for losses when amounts due from the customers are determined to be uncollectible.

  Under various agreements, International and its dealers may be liable for a portion of customer losses or may be required to repurchase the repossessed collateral at the receivable principal value. The amount of losses the Corporation records in its bad debt provision are net of the amounts received under these agreements.

- ***Sales of Receivables***

  The Corporation securitizes finance receivables through sales to QSPE's, which then issue securities to public and private investors. The Corporation sells receivables to the QSPE's with limited recourse. Gains or losses on sales of receivables are credited or charged to revenue in the periods in which the sales occur. Retained interests, which include interest-only receivables, cash reserve accounts, and subordinated certificates, are recorded at fair value in the periods in which the sales occur. The accretion of the discount related to the retained interests is recognized on an effective yield basis.

  Management estimates the prepayment speed for the receivables sold, the discount rate used to determine the present value of the interest-only receivable and the anticipated net losses on the receivables in order to calculate the gain or loss. The method for calculating the gain or loss aggregates the receivables in a homogenous pool. Estimates are based on historical experience, anticipated future portfolio performance, market-based discount rates and other factors, and are made separately for each securitization transaction. In addition, the Corporation estimates the fair value of the retained interests on a quarterly basis. The fair value of the interest-only receivable is based on present value estimates of expected cash flows using management's key assumptions of prepayment speeds, discount rates and net losses.

- ***Net Investments in Equipment on Operating Leases***

  Included in the net investments in equipment on operating leases are trucks, tractors and trailers leased to customers under operating leases. Included in this value are estimates of the residual values of the equipment. The residual values represent estimates of the values of the assets at the end of the lease contracts and are initially determined based on estimates of future market values. Realization of the residual values is dependent on the Corporation's future ability to market the vehicles under then prevailing conditions. Management reviews residual values periodically to determine that recorded amounts are appropriate and the operating lease assets have not been impaired. Each of these assets is depreciated on a straight-line basis over the term of the lease in an amount necessary to reduce the leased vehicle to its estimated residual value at the end of the lease term.

- ***Repossessions***

  Losses arising from the repossession of collateral supporting finance receivables and operating leases are recognized upon repossession. Repossessed assets are reclassified from finance receivables or investment in equipment on operating leases to repossessions and reported in Other Assets on the Statements of Consolidated Financial Condition. They are recorded at the lower of historical cost or fair value, with the related adjustments recorded in the allowance for credit losses.

- ***Pension and Other Postretirement Benefits***

  The Corporation provides defined benefit, postretirement benefits to a portion of its employees. Costs associated with postretirement benefits include pension and postretirement health care expenses for employees, retirees and surviving spouses and dependents. The Corporation's employee pension and postretirement heath care expenses are dependent on management's assumptions used by actuaries in calculating such amounts. These assumptions include discount rates, health care cost trend rates, inflation, long-term return on plan assets, retirement rates, mortality rates and other factors.

  See Note 11 to the Consolidated Financial Statements for more information regarding costs and assumptions for postretirement benefits.

**New Accounting Pronouncements**

In March 2004, the Emerging Issues Task Force ("EITF") reached a final consensus on EITF 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments". In September 2004, the FASB issued FSP EITF-03-1-1, "Effective Date of Paragraphs 10-20 of EITF 03-1", which deferred the effective date of paragraphs 10-20 of EITF 03-1. EITF 03-1 paragraph 21 requires specific disclosure for all investments in an unrealized loss position for which other than temporary impairments have not been recognized. The Corporation has included this disclosure in Footnote 15 Sales of Receivables.

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities". This interpretation addresses consolidation requirements of variable interest entities ("VIE's"). In December 2003, the FASB revised this Interpretation to clarify the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements", to certain entities in which equity investors do not have the characteristics of a controlling financial interest for the entity to finance its activities without additional financial support. This Interpretation, as revised, is effective for periods ending after December 15, 2003. The Corporation determined that it does not have an interest in a VIE, as defined within this Interpretation. Transferors to QSPE's subject to the reporting requirements of SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", are excluded from the scope of this interpretation. The Corporation currently sells receivables to entities meeting the requirements of QSPE's. Therefore, this Interpretation has no impact on the Corporation's results of operations, financial condition, and cash flows.

In December 2003, the FASB issued a revision to SFAS 132, "Employers' Disclosure about Pensions and Other Postretirement Benefits". This Statement retains the disclosures previously required by SFAS 132 but adds additional disclosure requirements about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. It also calls for the required information to be provided separately for pension plans and for other postretirement benefit plans.

On December 8, 2003, the President signed the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("the Act") into law. The Act introduces a voluntary prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care plans that provide prescription drug benefits that are at least actuarially equivalent to Medicare Part D. In May 2004, the FASB issued FSP 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003", which requires the commencement of accounting recognition for the effects of the Act no later than the Corporation's quarter ending October 31, 2004. The Corporation implemented the accounting guidance related to the effects of the Act during the quarter ended July 31, 2004. The cumulative effect of accounting for the subsidy, as of the date of the Act through the date of implementation, resulted in an immaterial reduction to the Corporation's postretirement benefit expenses and liabilities.

### Business Outlook

Certain statements, which involve risks and uncertainties, constitute "forward-looking statements" under the Securities Reform Act. The Corporation's actual results may differ significantly from the results discussed in such forward-looking statements. Navistar currently projects 2005 U.S. and Canadian Class 8 heavy truck demand to be 262,000 units, up 19.1% from 2004. Class 6 and 7 medium truck demand, excluding school buses, is forecast at 100,000 units, unchanged from 2004.

Demand for school buses is expected to be 27,500 units, up 5.0% from 2004. Mid-range diesel engine shipments by Navistar to OEMs in 2005 are expected to be 365,400 units, 2.1% higher than 2004.

Management believes that collections on the outstanding finance receivables portfolio plus facilities available from the Corporation's various funding sources will permit the Corporation to meet the financing requirements of International's dealers and retail customers through 2005 and beyond.

## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Corporation is exposed to market risk primarily due to fluctuations in interest rates. Interest rate risk arises from the funding of a portion of the Corporation's fixed rate receivables with floating rate debt. The Corporation has managed exposure to interest rate changes by funding floating rate receivables with floating rate debt and fixed rate receivables with fixed rate debt, floating rate debt and equity capital. Management has reduced the net exposure, which results from the funding of fixed rate receivables with floating rate debt by generally selling fixed rate receivables on a fixed rate basis and by utilizing derivative financial instruments, primarily swaps, when appropriate. The Corporation does not use derivative financial instruments for trading purposes.

The Corporation measures its interest rate risk by estimating the net amount by which the fair value of all interest rate sensitive assets and liabilities, including derivative financial instruments, would be impacted by selected hypothetical changes in market interest rates. Fair value is estimated using a discounted cash flow analysis. Assuming a hypothetical instantaneous 10% adverse change in interest rates as of October 31, 2004, the estimated fair value of the net assets would decrease by approximately $6.3 million. The Corporation's interest rate sensitivity analysis assumes a parallel shift in interest rate yield curves. The model, therefore, does not reflect the potential impact of changes in the relationship between short-term and long-term interest rates.

**Item 8. Financial Statements and Supplementary Data**

## Index

## Navistar Financial Corporation and Subsidiaries

### Statements of Consolidated Income and Retained Earnings

Millions of Dollars

| For the years ended October 31 | 2004 | As Restated (See Note 2) 2003 | 2002 |
|---|---|---|---|
| **Revenues** | | | |
| Retail Notes and Finance Leases | **$ 47.6** | $ 51.6 | $ 59.0 |
| Income Related to Sales of Finance Receivables | **53.5** | 66.9 | 35.4 |
| Operating Leases | **51.2** | 64.5 | 76.2 |
| Wholesale Notes | **33.5** | 31.0 | 27.6 |
| Accounts | **22.4** | 17.7 | 18.9 |
| Servicing Income | **27.4** | 25.4 | 26.8 |
| Other Revenue | **3.5** | 5.4 | 8.2 |
| **Total** | **239.1** | 262.5 | 252.1 |
| **Expenses** | | | |
| Cost of Borrowing | | | |
| Interest Expense | **40.9** | 49.8 | 58.0 |
| Other | **7.8** | 7.7 | 8.1 |
| Credit, Collection and Administrative | **39.8** | 41.2 | 39.5 |
| Provision for Credit Losses | **8.2** | 15.8 | 20.5 |
| Depreciation on Operating Leases | **38.1** | 45.0 | 55.4 |
| Other Expense | **2.0** | 4.2 | 2.9 |
| **Total** | **136.8** | 163.7 | 184.4 |
| **Income Before Taxes** | **102.3** | 98.8 | 67.7 |
| Income Tax Expense | **41.2** | 40.9 | 28.6 |
| **Income from Continuing Operations** | **61.1** | 57.9 | 39.1 |
| Loss on Disposal of Discontinued Operations, (net tax of $0.0, $1.5 and $0.7) | **-** | (2.4) | (1.2) |
| **Net Income** | **61.1** | 55.5 | 37.9 |
| **Retained Earnings** | | | |
| Beginning of Year | **184.9** | 179.4 | 141.5 |
| Dividends Paid | **-** | (50.0) | - |
| End of Year | **$ 246.0** | $ 184.9 | $ 179.4 |

### Statements of Consolidated Comprehensive Income

Millions of Dollars

| For the years ended October 31 | 2004 | As Restated (See Note 2) 2003 | 2002 |
|---|---|---|---|
| **Net Income** | **$ 61.1** | $ 55.5 | $ 37.9 |
| Other Comprehensive Loss: | | | |
| Net Unrealized Gains (Losses) on Investments (net of tax of $0.8, $0.8 and ($2.9)) | **(1.3)** | (1.2) | 4.7 |
| Minimum Pension Liability Adjustment (net of tax of $0.3, $4.3 and $0.3) | **(0.5)** | (6.9) | (0.5) |
| Total | **(1.8)** | (8.1) | 4.2 |
| **Comprehensive Income** | **$ 59.3** | $ 47.4 | $ 42.1 |

See Notes to Consolidated Financial Statements.

**Navistar Financial Corporation and Subsidiaries**

**Statements of Consolidated Financial Condition**

Millions of Dollars

| As of October 31 | **2004** | As Restated (See Note 2) 2003 |
|---|---|---|
| **ASSETS** | | |
| Cash and Cash Equivalents | **$ 10.4** | $ - |
| Finance Receivables | | |
| Finance Receivables | **814.8** | 519.9 |
| Other Finance Receivables | **461.0** | 347.3 |
| Allowance for Losses | **(6.7)** | (12.9) |
| Finance Receivables, net | **1,269.1** | 854.3 |
| Amounts Due from Sales of Receivables | **383.4** | 349.0 |
| Net Investment in Equipment on Operating Leases | **148.9** | 191.1 |
| Restricted Marketable Securities | **63.0** | 505.6 |
| Other Assets | **33.5** | 52.3 |
| **Total Assets** | **$1,908.3** | $1,952.3 |
| **LIABILITIES AND SHAREOWNER'S EQUITY** | | |
| Net Accounts Payable to Affiliates | **$ 43.5** | $ 3.2 |
| Senior and Subordinated Debt | **1,325.2** | 1,461.9 |
| Other Liabilities | **116.0** | 134.8 |
| **Total Liabilities** | **1,484.7** | 1,599.9 |
| Commitments and Contingencies | **-** | - |
| Shareowner's Equity | | |
| Capital Stock (par value $1.00, 1,600,000 shares issued and outstanding) and Paid-In Capital | **182.9** | 171.0 |
| Retained Earnings | **246.0** | 184.9 |
| Accumulated Other Comprehensive Loss | **(5.3)** | (3.5) |
| **Total Shareowner's Equity** | **423.6** | 352.4 |
| **Total Liabilities and Shareowner's Equity** | **$1,908.3** | $1,952.3 |

See Notes to Consolidated Financial Statements.

## Navistar Financial Corporation and Subsidiaries

### Statements of Consolidated Cash Flow

Millions of Dollars

| For the years ended October 31 | **2004** | 2003 (As Restated (See Note 2)) | 2002 (As Restated (See Note 2)) |
|---|---|---|---|
| **Cash Flow From Operations** | | | |
| Net Income | **$ 61.1** | $ 55.5 | $ 37.9 |
| Adjustments to reconcile net income to cash provided from operations: | | | |
| Loss on disposal of discontinued operations, net of tax | **-** | 2.4 | 1.2 |
| Gains on sales of receivables | **(25.9)** | (46.3) | (16.4) |
| Depreciation, amortization and accretion | **18.7** | 27.9 | 39.9 |
| Provision for credit losses | **8.2** | 15.8 | 20.5 |
| Net change in accounts payable to affiliates | **40.3** | (48.0) | 37.0 |
| Net change in accounts payable to others | **(19.2)** | 4.2 | 8.4 |
| Net change in accrued income taxes | **(3.3)** | 13.6 | 9.0 |
| Net change in accrued interest | **(1.4)** | (1.7) | (4.2) |
| Other | **16.4** | 14.8 | (0.8) |
| Total | **94.9** | 38.2 | 132.5 |
| **Cash Flow From Investing Activities** | | | |
| Originations of finance receivables | **(1,385.6)** | (1,112.7) | (1,001.0) |
| Proceeds from sales of finance receivables | **1,118.6** | 1,701.1 | 999.0 |
| Proceeds from sales of retail accounts | **100.0** | - | - |
| Net change in restricted marketable securities | **442.6** | (401.0) | 109.0 |
| Collections of retail notes and finance leases receivables, net of change in unearned finance income | **130.4** | 105.7 | 78.7 |
| Repurchase of sold retail receivables | **(158.5)** | (208.5) | (214.3) |
| Net change in wholesale notes and accounts receivables | **(213.6)** | (53.0) | (58.8) |
| Net change in amounts due from sales of receivables | **5.5** | 56.1 | 27.5 |
| Purchase of equipment on operating leases | **(29.5)** | (40.0) | (59.9) |
| Sale of equipment on operating leases | **33.6** | 52.1 | 33.5 |
| Receipts from derivative contracts | **0.9** | 4.1 | 3.7 |
| Payments on derivative contracts | **(0.5)** | (17.9) | (4.4) |
| Proceeds from sale of discontinued operations | **-** | - | 63.3 |
| Total | **43.9** | 86.0 | (23.7) |
| **Cash Flow From Financing Activities** | | | |
| Net change in bank revolving credit facility usage | **101.0** | (11.0) | (110.0) |
| Debt issuance costs on convertible debt | - | - | (6.3) |
| Proceeds from issuance of convertible debt | - | - | 169.5 |
| Proceeds from long-term debt | **42.9** | 28.4 | 70.4 |
| Principal payments on long-term debt | **(102.3)** | (123.6) | (222.7) |
| Assumption of debt by Navistar | **(170.0)** | - | - |
| Dividends paid to International | **-** | (50.0) | - |
| Total | **(128.4)** | (156.2) | (99.1) |
| **Change in Cash and Cash Equivalents** | **10.4** | (32.0) | 9.7 |
| **Cash and Cash Equivalents, Beginning of Period** | **-** | 32.0 | 22.3 |
| **Cash and Cash Equivalents, End of Period** | **$ 10.4** | $ - | $ 32.0 |
| **Supplementary disclosure of cash flow information:** | | | |
| Interest paid | **$ 42.3** | $ 51.6 | $ 62.1 |
| Income taxes paid, net of refunds | **$ 38.9** | $ 20.4 | $ 22.0 |

See Notes to Consolidated Financial Statements.

## 1. SUMMARY OF ACCOUNTING POLICIES

### Principles of Consolidation

The consolidated financial statements include the accounts of Navistar Financial Corporation and its wholly-owned subsidiaries ("Corporation"). International Truck and Engine Corporation ("International"), which is wholly-owned by Navistar International Corporation ("Navistar"), is the parent company of the Corporation. All significant intercompany balances and transactions have been eliminated.

### Nature of Operations

The Corporation is a commercial financing organization that provides retail, wholesale and lease financing of products sold by International and its dealers within the United States. The Corporation also finances wholesale accounts and selected retail accounts receivable of International. Sales of new products (including trailers) of other manufacturers are also financed regardless of whether they are designed or customarily sold for use with International's truck products.

### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Revenue on Receivables

Revenue from finance receivables is recognized using the interest method. Revenue on operating leases is recognized on a straight-line basis over the life of the lease. Recognition of revenue is suspended when management determines the collection of future income is not probable. Income recognition is resumed if collection doubts are removed.

### Sales of Receivables

The Corporation securitizes finance receivables through QSPE's, which then issue securities to public and private investors. The Corporation sells receivables to the QSPE's with limited recourse. Gains or losses on sales of receivables are credited or charged to revenue in the periods in which the sales occur. Retained interests, which include interest-only receivables, cash reserve accounts, and subordinated certificates, are recorded at fair value in the periods in which the sales occur. The discount accretion related to the retained interests is recognized on an effective yield basis.

Management estimates the prepayment speed for the receivables sold, the discount rate used to determine the present value of the interest-only receivable and the anticipated net losses on the receivables in order to calculate the gain or loss. The method for calculating the gain or loss aggregates the receivables in a homogenous pool. Estimates are based on historical experience, anticipated future portfolio performance, market-based discount rates and other factors and are made separately for each securitization transaction. In addition, the Corporation estimates the fair value of the retained interests on a quarterly basis. The fair value of interest-only receivables is based on present value estimates of expected cash flows using management's key assumptions of prepayment speeds, discount rates and net losses.

**1. SUMMARY OF ACCOUNTING POLICIES (continued)**

**Income Taxes**

Navistar and its subsidiaries file a consolidated federal income tax return, which includes International and the Corporation. Federal income taxes for the Corporation are computed on a separate return basis and are payable to International.

**Cash and Cash Equivalents**

Cash and cash equivalents are defined as short-term, highly liquid investments with original maturities of 90 days or less.

**Finance Receivables**

Finance receivables that management has the intent and ability to hold are reported at their outstanding principal.

The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received.

**Allowance for Losses**

The allowance for losses is established through a charge to the provision for losses. The allowance is an estimate of the amount required to absorb losses on the existing portfolio of finance receivables and operating leases that may become uncollectible. The allowance is maintained at an amount management considers appropriate in relation to the outstanding portfolio based on factors such as overall portfolio credit risk quality, historical loss experience, and current economic conditions. Finance receivables and operating leases are charged off to the allowance for losses when amounts due from the customers are determined to be uncollectible.

Under various agreements, International and its dealers may be liable for a portion of customer losses or may be required to repurchase the repossessed collateral at the receivable principal value. The amount of losses the Corporation records as part of bad debt provision are net of the amounts received under these agreements.

**Restricted Marketable Securities**

On October 16, 2000, Truck Retail Instalment Paper Corp. ("TRIP"), a special purpose wholly-owned subsidiary of the Corporation, issued $500.0 of senior and subordinated floating rate asset-backed notes. The proceeds were used to establish a revolving retail warehouse facility to fund the Corporation's retail notes and finance leases. The Corporation is required to maintain the revolving retail warehouse facility with collateral in the amount of $500.0. In the event that retail note and lease balances pledged to the revolving retail warehouse facility fall below $500.0, the excess proceeds are invested in marketable securities, which are restricted and have maturities of three months or less. Due to the short-term nature of these marketable securities, their fair value approximates carrying value.

**1. SUMMARY OF ACCOUNTING POLICIES (continued)**

**Net Investments in Equipment on Operating Leases**

The Corporation has investments in trucks, tractors and trailers that are leased to customers under operating lease agreements. The residual values of the equipment represent estimates of the values of the assets at the end of the lease contracts and are initially recorded based on estimates of future market values. Realization of the residual values is dependent on the Corporation's future ability to market the vehicles under then prevailing conditions. Management reviews residual values periodically to determine that recorded amounts are appropriate and the equipment on operating lease assets have not been impaired. Each of these assets is depreciated on a straight-line basis over the term of the lease in an amount necessary to reduce the leased vehicle to its estimated residual value at the end of the lease term.

**Repossessions**

Losses arising from the repossession of collateral supporting finance receivables and operating leases are recognized upon repossession. Repossessed assets are recorded at the lower of historical cost or fair value and are reclassified from finance receivables or equipment on operating leases to repossessions, which is reported on the Statements of Consolidated Financial Condition as part of Other Assets, with the related adjustments recorded in allowance for losses.

**Derivative Financial Instruments**

The Corporation recognizes all derivatives as assets or liabilities in the Statements of Consolidated Financial Condition and measures them at fair value in accordance with Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended. This statement standardizes the accounting for derivative instruments by requiring that an entity recognize all derivatives as assets or liabilities and measure them at fair value. When certain criteria are met, the timing of gain or loss recognition on the derivative instrument is matched with the recognition of (a) the changes in the fair value or cash flows of the hedged asset or liability attributable to the hedged risk or (b) the earnings effect of the hedged forecasted transaction.

All derivative financial instruments, such as forward contracts, interest rate swaps and interest rate caps, are held for purposes other than trading. The Corporation's policy prohibits the use of derivative financial instruments for speculative purposes. The Corporation generally uses derivative financial instruments to reduce its exposure to interest rate volatility.

The Corporation may use forward contracts to limit its interest rate risk exposure on the notes and certificates related to an expected sale of receivables. The Corporation may use interest rate swaps or caps to reduce exposure to interest rate changes when it sells fixed rate receivables on a variable rate basis.

All derivative instruments are recorded at their fair value. For those instruments, which do not qualify for hedge accounting, changes in fair value are recognized in income.

**New Accounting Standards**

In March 2004, the Emerging Issues Task Force ("EITF") reached a final consensus on EITF 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments". In September 2004, the FASB issued FSP EITF 03-1-1, "Effective Date of Paragraphs 10-20 of EITF 03-1 which deferred the effective date of paragraphs 10-20 of EITF 03-1. EITF 03-1 paragraph 21 requires specific disclosure for all investments in an unrealized loss position for which other than temporary impairments have not been recognized. The Corporation has included this disclosure in Footnote 15 Sales of Receivables.

**1. SUMMARY OF ACCOUNTING POLICIES (continued)**

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities". This interpretation addresses consolidation requirements of variable interest entities ("VIE's"). In December 2003, the FASB revised this Interpretation to clarify the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements", to certain entities in which equity investors do not have the characteristics of a controlling financial interest for the entity to finance its activities without additional financial support. This Interpretation, as revised, is effective for periods ending after December 15, 2003. The Corporation determined that it does not have an interest in a VIE, as defined within this Interpretation. Transferors to QSPE's subject to the reporting requirements of Statements of Financial Accounting Standards ("SFAS") 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", are excluded from the scope of this interpretation. The Corporation currently sells receivables to entities meeting the requirements of QSPE's. Therefore, this Interpretation has no impact on the Corporation's results of operations, financial condition, and cash flows.

In December 2003, the FASB issued a revision to SFAS 132, "Employers' Disclosure about Pensions and Other Postretirement Benefits". This Statement retains the disclosures previously required by SFAS 132 but adds additional disclosure requirements about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. It also calls for the required information to be provided separately for pension plans and for other postretirement benefit plans. The Corporation assessed the assets, obligations, cash flows, and net periodic benefit cost for pension plans and for other postretirement benefit plans and determined the amounts to be immaterial; therefore, related disclosures have been omitted.

On December 8, 2003, the President signed the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("the Act") into law. The Act introduces a voluntary prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care plans that provide prescription drug benefits that are at least actuarially equivalent to Medicare Part D. In May 2004, the FASB issued FSP 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003", which requires the commencement of accounting recognition for the effects of the Act no later than the Corporation's quarter ending October 31, 2004. The Corporation implemented the accounting guidance related to the effects of the Act during the quarter ended July 31, 2004. The cumulative effect of accounting for the subsidy as of the date of the Act through the date of implementation resulted in an immaterial reduction to the Corporation's postretirement benefit expenses and liabilities.

**2. RESTATEMENT**

In December 2004, the Corporation determined to restate its consolidated financial statements for the years ended October 31, 2003 and 2002 primarily to correct the Corporation's previous accounting for: (i) the securitization of its retail notes and finance lease receivables; (ii) deferred taxes related to retail note and finance lease securitization transactions and secured borrowings to fund operating and finance leases; and (iii) an agreement to repurchase equipment.

The restatement recognizes income from the interest-only receivables on an effective yield basis and incorporates anticipated credit losses into the Corporation's interest-only receivables. The retained interests are recorded at fair value where the estimates of future cash flows take into effect current business and market conditions.

Also as a part of the correction of the securitization accounting, the Corporation reviewed its tax treatment and deferred tax assets related to these securitizations as well as for its secured borrowings related to operating and

MILLIONS OF DOLLARS

**2. RESTATEMENT (continued)**

finance leases. As a result, a decrease to deferred tax liability of $16.2 was recorded in 2003. Tax liabilities are included in Other Liabilities.

The Corporation made an additional adjustment to recognize a residual value guarantee of $11.9 in Other Assets and a corresponding increase in Other Liabilities for the repurchase of equipment.

As part of the restatement, the Corporation recorded a ($21.9) cumulative adjustment to beginning Retained Earnings and a $7.9 adjustment to Accumulated Other Comprehensive Loss as of November 1, 2001 reflecting the impact of the error for retail note securitizations originating in prior periods. The effects of the restatements on the consolidated financial statements for the years ended October 31, 2003 and 2002 are summarized below:

| *Income Statement* | 2002 Previously Reported | Adjustment | 2002 Restated |
|---|---|---|---|
| Retail Notes and Finance Leases | $ 55.6 | $ 3.4 | $ 59.0 |
| Income Related to Sales of Finance Receivables | 37.3 | (1.9) | 35.4 |
| Servicing Income | 23.0 | 3.8 | 26.8 |
| Credit, Collection and Administrative | 41.0 | (1.5) | 39.5 |
| Income Before Taxes | 60.8 | 6.9 | 67.7 |
| Income Tax Expense | 25.9 | 2.7 | 28.6 |
| Income from Continuing Operations | 34.9 | 4.2 | 39.1 |
| Net Income | 33.7 | 4.2 | 37.9 |
| Comprehensive Income | 33.5 | 8.6 | 42.1 |

| *Balance Sheet* | 2003 Previously Reported | Adjustment | 2003 Restated |
|---|---|---|---|
| Amounts Due from Sales of Receivables | $ 368.9 | $ (19.9) | $ 349.0 |
| Other Assets | 39.9 | 12.4 | 52.3 |
| Total Assets | 1,959.8 | (7.5) | 1,952.3 |
| Net Accounts Payable to Affiliates | 4.2 | (1.0) | 3.2 |
| Other Liabilities | 129.5 | 5.3 | 134.8 |
| Retained Earnings | 204.6 | (19.7) | 184.9 |
| Accumulated Other Comprehensive Loss | (11.4) | 7.9 | (3.5) |
| Total Shareowner's Equity | 364.2 | (11.8) | 352.4 |

| *Income Statement* | 2003 Previously Reported | Adjustment | 2003 Restated |
|---|---|---|---|
| Retail Notes and Finance Leases | $ 46.5 | $ 5.1 | $ 51.6 |
| Income Related to Sales of Finance Receivables | 76.4 | (9.5) | 66.9 |
| Servicing Income | 25.2 | 0.2 | 25.4 |
| Credit, Collection and Administrative | 42.7 | (1.5) | 41.2 |
| Income Before Taxes | 101.5 | (2.7) | 98.8 |
| Income Tax Expense | 41.6 | (0.7) | 40.9 |
| Income from Continuing Operations | 59.9 | (2.0) | 57.9 |
| Net Income | 57.5 | (2.0) | 55.5 |
| Comprehensive Income | 49.4 | (2.0) | 47.4 |

## 3. TRANSACTIONS WITH AFFILIATED COMPANIES

### Wholesale Notes, Wholesale Accounts and Retail Accounts

In accordance with the agreements between the Corporation and International relating to financing of wholesale notes, wholesale accounts and retail accounts, the Corporation receives interest income from International at agreed upon interest rates applied to the average outstanding balances less interest amounts paid by dealers on wholesale notes and wholesale accounts. Substantially all revenues earned on wholesale accounts and retail accounts are received from International. Aggregate interest revenue collected from International was $40.1 in 2004, $36.9 in 2003 and $32.2 in 2002. The interest revenues are reported in Wholesale Notes and Accounts revenues on the Statement of Consolidated Income.

### Retail Notes and Lease Financing

In accordance with agreements between the Corporation and International, International may be liable for certain losses on finance receivables and investments in equipment on operating leases and may be required to repurchase the repossessed collateral at the receivable principal value. Losses recorded by International on its financial statements were $10.4 in 2004, $24.1 in 2003 and $38.2 in 2002.

### Support Agreements

Under provisions of certain public and private financing arrangements, agreements with International and Navistar provide that the Corporation's consolidated income before interest expense and income taxes will be maintained at not less than 125% of its consolidated interest expense. No income maintenance payments were required during the three-year period ended October 31, 2004.

### Administrative Expenses

The Corporation pays a fee to International for data processing and other administrative services based on the actual cost of services performed. The amount of the fee was $1.9 in 2004, $1.9 in 2003 and $2.2 in 2002. The fee is reported in Credit, Collection and Administrative expenses on the Statement of Consolidated Income.

### Accounts Payable

Accounts payable to affiliates, which the Corporation is obligated to repay upon request, were $43.5 and $3.2 as of October 31, 2004 and 2003, respectively.

### Assumption of Debt

Navistar assumed the $220.0 of 4.75 percent convertible subordinated debt due in 2009 from the Corporation in June 2004. As compensation for the assumption of this debt, the Corporation paid Navistar approximately $170.0 in cash. Navistar's assumption of the Corporation's debt resulted in an $11.9 increase in paid-in capital for the Corporation.

MILLIONS OF DOLLARS

## 4. DISCONTINUED OPERATIONS

On November 30, 2001, the Corporation completed the sale of all of the stock of Harco National Insurance Company ("Harco"), a wholly-owned insurance subsidiary, to IAT Reinsurance Syndicate Ltd. ("IAT"), a Bermuda reinsurance company. Cash proceeds of $63.3 were received. The Harco insurance segment was accounted for as a discontinued operation, and accordingly, amounts in the consolidated financial statements and notes thereto, for all periods affected, have been restated to reflect discontinued operations accounting.

As part of its sales agreement with IAT, the Corporation has agreed to guarantee the adequacy of Harco's loss reserves. The Corporation has provided disclosures about this guarantee in Note 12.

The components of gain (loss) on disposal recorded in the Statements of Consolidated Income and Retained Earnings are as follows:

| | 2004 | 2003 | 2002 | 2001 | 2000 | Total |
|---|---|---|---|---|---|---|
| Gains (loss) on sale | $ - | $ - | $ - | $ 13.1 | $ (11.9) | $ 1.2 |
| Severance and other exit costs | - | (3.9) | (1.9) | 0.3 | (3.8) | (9.3) |
| Curtailment loss | - | - | - | - | (1.2) | (1.2) |
| Pretax gain (loss) on disposal | - | (3.9) | (1.9) | 13.4 | (16.9) | (9.3) |
| Deferred tax (expense) benefit | - | 1.5 | 0.7 | (5.1) | 6.4 | 3.5 |
| Total gain (loss) on disposal of discontinued operations | $ - | $ (2.4) | $ (1.2) | $ 8.3 | $ (10.5) | $ (5.8) |

## 5. FINANCE RECEIVABLES

The Corporation's primary business is to provide wholesale, retail and lease financing for new and used trucks sold by International and International's dealers, and as a result, the Corporation's receivables and leases have significant concentration in the trucking industry. On a geographic basis, there is not a disproportionate concentration of credit risk in any area of the United States. The Corporation retains as collateral an ownership interest in the equipment associated with leases and a security interest in the equipment associated with wholesale notes and retail notes.

Finance receivable balances, net of unearned finance income, as of October 31 are summarized as follows:

| | **2004** | 2003 |
|---|---|---|
| Retail notes, net of unearned income | **$ 712.3** | $ 404.5 |
| Finance leases, net of unearned income | **102.5** | 115.4 |
| Wholesale notes | **172.9** | 46.0 |
| Accounts: | | |
| Retail | **209.3** | 217.9 |
| Wholesale | **78.8** | 83.4 |
| Total accounts | **288.1** | 301.3 |
| Total finance receivables | **1,275.8** | 867.2 |
| Less: Allowance for losses | **6.7** | 12.9 |
| Total finance receivables, net | **$ 1,269.1** | $ 854.3 |

MILLIONS OF DOLLARS

**5. FINANCE RECEIVABLES (continued)**

Contractual maturities of finance receivables, including unearned finance income, as of October 31, 2004, are summarized as follows:

| | Retail notes | Finance leases | Wholesale notes | Accounts |
|---|---|---|---|---|
| Due in fiscal year: | | | | |
| 2005 | $ 212.9 | $ 12.2 | $ 91.1 | $ 288.1 |
| 2006 | 177.4 | 22.7 | 81.8 | - |
| 2007 | 144.6 | 28.1 | - | - |
| 2008 | 125.6 | 22.8 | - | - |
| 2009 | 92.4 | 26.6 | - | - |
| Thereafter | 36.5 | 3.5 | - | - |
| Gross finance receivables | 789.4 | 115.9 | 172.9 | 288.1 |
| Unearned finance income | (77.1) | (13.4) | - | - |
| Finance receivables, net of unearned income | $ 712.3 | $ 102.5 | $ 172.9 | $ 288.1 |

The actual cash collections from finance receivables may vary from the contractual cash flows because of sales, prepayments, extensions, delinquencies, credit losses, and renewals. The contractual maturities, therefore, should not be regarded as a forecast of future collections.

**6. ALLOWANCE FOR LOSSES**

The allowance for losses is summarized as follows for the fiscal years ended October 31:

| | **2004** | 2003 | 2002 |
|---|---|---|---|
| Allowance for losses, beginning of period | **$ 12.9** | $ 16.0 | $ 13.3 |
| Provision for credit losses | **8.2** | 15.8 | 20.5 |
| Net losses charged to allowance | **(6.6)** | (4.2) | (5.3) |
| Transfers to finance receivables sold | **(7.8)** | (14.7) | (12.5) |
| Allowance for losses, end of period | **$ 6.7** | $ 12.9 | $ 16.0 |

The average outstanding balance of impaired finance receivables was not material for the fiscal year ended October 31, 2004. Interest income that would have been recognized on impaired finance receivables during the fiscal years 2004, 2003, and 2002 were not material.

Balances with payments past due over 90 days on owned finance receivables totaled $5.5 as of October 31, 2004.

MILLIONS OF DOLLARS

## 7. REPOSSESSIONS

The Corporation has repossessions related to defaulted owned receivables and leases that are reported on the Statements of Consolidated Financial Condition as part of Other Assets. It liquidates those repossessions to recover the credit losses on its portfolio. In addition, the Corporation, as servicer of receivables sold into securitization vehicles, liquidates repossessions related to defaulted sold receivables and leases on behalf of the owner trusts. The Corporation advances the value of these repossessions to the trusts and reports them on the Statements of Consolidated Financial Condition as part of Amounts Due from Sales of Receivables.

The Corporation's repossessions are summarized as follows for the fiscal year ended October 31:

| | **2004** | 2003 |
|---|---|---|
| Acquisitions | | |
| Owned | **$ 20.9** | $ 43.0 |
| Sold | **20.8** | 39.4 |
| Total | **$ 41.7** | $ 82.4 |
| Repossessions, end of period | | |
| Owned | **$ 8.2** | $ 9.8 |
| Sold | **6.1** | 11.3 |
| Total | **$ 14.3** | $ 21.1 |

## 8. INVESTMENT IN EQUIPMENT ON OPERATING LEASES

Investments in equipment on operating leases at year-end were as follows:

| | **2004** | 2003 |
|---|---|---|
| Vehicles and other equipment, at cost | **$ 268.3** | $ 311.8 |
| Less: Accumulated depreciation | **(119.4)** | (120.7) |
| Net investment in equipment on operating leases | **$ 148.9** | $ 191.1 |

Future minimum rentals on operating leases are as follows: 2005, $41.1; 2006, $28.1; 2007, $15.9; 2008, $10.0; 2009, $6.1 and $3.2 thereafter.

## 9. INCOME TAXES

Taxes on income from continuing operations for the years ended October 31 are summarized as follows:

| | **2004** | 2003 | 2002 |
|---|---|---|---|
| Current: | | | |
| Federal | **$ 27.8** | $ 20.0 | $ 27.2 |
| State and local | **6.2** | 3.6 | 4.1 |
| Total current | **33.4** | 23.6 | 31.3 |
| Deferred (primarily federal) | **7.8** | 15.8 | (3.4) |
| Less: Amount from discontinued operations | **-** | (1.5) | (0.7) |
| Total income tax expense from continuing operations | **$ 41.2** | $ 40.9 | $ 28.6 |

MILLIONS OF DOLLARS

**9. INCOME TAXES (continued)**

A reconciliation of the statutory federal income tax rate from continuing operations is as follows:

| | **2004** | 2003 | 2002 |
|---|---|---|---|
| Statutory federal income tax rate | **35.0%** | 35.0% | 35.0% |
| State income taxes net of federal income taxes | **3.9** | 3.3 | 3.8 |
| Original issue discount | **1.2** | 2.1 | 1.6 |
| Sale of subsidiaries | - | - | 1.7 |
| Other | **0.1** | 1.0 | 0.1 |
| Effective income tax rate | **40.2%** | 41.4% | 42.2% |

NFC and its domestic subsidiaries are included in Navistar's consolidated federal income tax returns. State income tax returns are generally filed on a separate basis. In accordance with its intercompany tax sharing agreement with Navistar, all federal income tax liabilities or credits are allocated to NFC and its domestic subsidiaries as if it filed a separate return. Total tax payments made during 2004, 2003 and 2002 were $39.6, $20.8, and $21.7, respectively.

Recent tax law changes were enacted under the American Jobs Creation Act of 2004 which create a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85 percent dividends received deduction for certain dividends from controlled foreign corporations. The deduction is subject to a number of limitations as well as uncertainty as to how to interpret numerous provisions in the Act. NFC has negligible overseas investments and therefore does not intend to implement a one-time repatriation of foreign earnings.

The net deferred tax liability from continuing operations is included in Other Liabilities on the Statements of Financial Condition. The components of deferred tax assets and liabilities from continuing operations as of October 31 are as follows:

| | **2004** | 2003 |
|---|---|---|
| Deferred tax assets: | | |
| Pension and other postretirement benefits | **$ 8.3** | $ 7.7 |
| Bad debts | **2.5** | 6.4 |
| Other | **4.4** | 6.2 |
| Total deferred tax assets | **$ 15.2** | $ 20.3 |
| Deferred tax liabilities: | | |
| Lease transactions | **(12.8)** | (12.3) |
| Securitization of receivables | **(26.9)** | (25.0) |
| Market valuation adjustments | **(2.8)** | (3.1) |
| Other | **(0.8)** | (1.3) |
| Total deferred tax liabilities | **(43.3)** | (41.7) |
| Net deferred tax liabilities | **$ (28.1)** | $ (21.4) |

MILLIONS OF DOLLARS

## 10. SENIOR AND SUBORDINATED DEBT

Senior and subordinated debt outstanding as of October 31 is summarized as follows:

| | 2004 | 2003 |
|---|---|---|
| Bank revolving credit facility, at variable rates, due December 2005 | **$ 672.0** | $ 571.0 |
| Revolving retail warehouse facility, at variable rates, due October 2005 | **500.0** | 500.0 |
| Borrowings secured by operating and finance leases, 3.37% to 6.65%, due serially through April 2010 | **153.2** | 212.5 |
| Convertible debt, 4.75%, due April 2009 | **-** | 178.4 |
| Total senior and subordinated debt | **$1,325.2** | $1,461.9 |

The Corporation has an $820.0 contractually committed bank revolving credit facility that will mature in December 2005. Under the revolving credit agreement, Navistar's three Mexican finance subsidiaries, which are wholly owned subsidiaries of Navistar, are permitted to borrow up to $100.0 in the aggregate. Under the terms of the bank revolving credit facility, the Corporation is required to maintain a debt to tangible net worth ratio of no greater than 7.0 to 1.0, an income before income taxes to interest expense and dividend on redeemable preferred stock ratio of not less than 1.25 to 1.0, and a twelve month rolling combined retail/lease loss to liquidation ratio of no greater than .045 to 1.0. The bank revolving credit agreement permits security interests in substantially all of the Corporation's assets to the participants in the credit agreement. Compensating cash balances are not required under the bank revolving credit facility. Facility fees are paid quarterly regardless of usage.

The failure of the Corporation and its affiliates to complete their respective Annual Reports on Form 10-K and deliver those reports and related required information to their respective lenders by January 29, 2005, has resulted in one or more defaults under the revolving credit agreement. On January 31, 2005, the Corporation received a waiver of the existing defaults under the credit agreement. The waiver permits the Corporation to incur additional borrowings under the agreement through February 28, 2005.

In the event that the Corporation has not cured any defaults by February 28, 2005, it will again no longer be able to incur additional indebtedness under the credit agreement unless it shall have obtained a subsequent waiver. In the event that the Corporation does not cure any defaults by March 1, 2005 (unless it shall have obtained an additional waiver), an event of default shall have occurred under the credit agreement and the administrative agent or the lenders will have the ability to terminate the credit facility and demand immediate payment of all amounts outstanding under the credit agreement. Such a demand for payment would result in defaults under numerous other credit facilities and other agreements of the Corporation and its affiliates. The Corporation believes that the defaults will be cured prior to the expiration of the waiver through the delivery of the Annual Reports on Form 10-K and the related information.

Truck Retail Instalment Paper Corp. ("TRIP"), a special purpose, wholly-owned subsidiary of the Corporation, issued $500.0 of senior and subordinated floating rate asset-backed notes on October 16, 2000. The proceeds were used to establish a revolving retail warehouse facility to fund the Corporation's retail notes and retail leases, other than fair market value leases. This facility is used primarily during the period prior to a securitization of retail notes and finance leases.

MILLIONS OF DOLLARS

**10. SENIOR AND SUBORDINATED DEBT (continued)**

The Corporation enters into secured borrowing agreements involving vehicles subject to operating and finance leases with retail customers. The balances are classified under senior and subordinated debt as borrowings secured by leases. In connection with the securitizations and secured borrowing agreements of certain of its leasing portfolio assets, the Corporation and its subsidiary, Harco Leasing Company, Inc. ("HLC"), have established Navistar Leasing Company ("NLC"), a Delaware business trust. NLC holds legal title to leased vehicles and is the lessor on substantially all leases originated by the Corporation. The assets of NLC have been and will continue to be allocated into various beneficial interests issued by NLC. HLC owns one such beneficial interest in NLC and HLC has transferred other beneficial interests issued by NLC to purchasers under secured borrowing agreements and securitizations. Neither the beneficial interests held by purchasers under secured borrowing agreements or the assets represented thereby, nor legal interest in any assets of NLC, are available to HLC, the Corporation or its creditors.

International Truck Leasing Corporation ("ITLC"), a special purpose, wholly-owned subsidiary of the Corporation, was established in June 2004 to provide the Corporation with another vehicle to obtain borrowings secured by leases. ITLC's assets are available to satisfy its creditors' claims prior to such assets becoming available for ITLC's use or to the Corporation or affiliated companies.

Navistar assumed the $220.0 of 4.75 percent convertible subordinated debt due in 2009 from the Corporation in June 2004. As compensation for the assumption of this debt, the Corporation paid Navistar approximately $170.0 in cash. Navistar's assumption of the Corporation's debt resulted in an $11.9 increase in paid-in capital for the Corporation.

The weighted average interest rate on total debt, including short-term debt and the effect of discounts and related amortization, was 3.1% in 2004, 3.6% in 2003 and 4.0% in 2002.

The aggregate annual contractual maturities and required payments of senior and subordinated debt are as follows:

| Fiscal year ended October 31 | |
|---|---|
| 2005 | $ 570.5 |
| 2006 | 715.9 |
| 2007 | 23.2 |
| 2008 | 10.6 |
| 2009 | 4.5 |
| Thereafter | 0.5 |
| Total | $ 1,325.2 |

**11. POSTRETIREMENT BENEFITS**

The Corporation provides postretirement benefits to its employees. Costs associated with postretirement benefits include pension and postretirement health care expenses for employees, retirees and surviving spouses and dependents. The Corporation utilizes an October 31 measurement date for all of its defined benefit plans.

Generally, the pension plans are non-contributory. The Corporation's policy is to fund its pension plans in accordance with applicable United States government regulations. As of October 31, 2004, all legal funding requirements had been met. The Corporation does not expect to make contributions to its pension plans in 2005.

MILLIONS OF DOLLARS

**11. POSTRETIREMENT BENEFITS (continued)**

**Postretirement Expense**

Net periodic benefit cost included in the Statements of Consolidated Income is composed of the following:

| | Pension Benefits | | | Other Benefits | | |
|---|---|---|---|---|---|---|
| | **2004** | 2003 | 2002 | **2004** | 2003 | 2002 |
| Service costs for benefits earned during the period | **$ 0.5** | $ 0.5 | $ 0.7 | **$ 0.3** | $ 0.3 | $ 0.5 |
| Interest cost on obligation | **3.8** | 3.9 | 3.9 | **1.4** | 1.6 | 1.5 |
| Amortization of cumulative losses | **1.1** | 0.6 | 0.2 | **0.3** | 0.7 | 0.3 |
| Amortization of prior service costs | **0.1** | 0.1 | 0.1 | **-** | - | - |
| Other | **-** | (0.5) | 0.6 | **-** | (0.1) | - |
| Less expected return on assets | **(4.8)** | (4.4) | (5.2) | **(0.6)** | (0.5) | (0.7) |
| Net postretirement (income) expense | **$ 0.7** | $ 0.2 | $ 0.3 | **$ 1.4** | $ 2.0 | $ 1.6 |

Cumulative gains and losses and Plan amendments are amortized over the expected remaining service life of employees.

Defined contribution plans cover a substantial portion of the Corporation's employees. Under the defined contribution plans, Navistar makes annual contributions to each participant's retirement account based on an age-weighted percentage of the participant's eligible compensation for the calendar year. The plans also contain a 401(k) feature and provide for a company match; currently 50% of the first 6% of pretax salary contributions are made on behalf of the participant.

Defined contribution expense pursuant to these plans was $0.5, $0.4 and $0.4 in 2004, 2003, and 2002, respectively, which approximates the amount funded by Navistar.

The funded status of the Corporation's plans as of October 31, 2004 and 2003 and reconciliation with amounts recognized in the Statements of Consolidated Financial Condition are as follows:

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| <u>**Change in benefit obligation**</u> | | | | |
| Benefit obligation at beginning of year | **$ 67.5** | $ 56.3 | **$ 24.7** | 24.0 |
| Service Cost | **0.5** | 0.5 | **0.3** | 0.3 |
| Interest on obligation | **3.8** | 3.9 | **1.4** | 1.6 |
| Actuarial net loss (gain) | **1.5** | 10.5 | **(0.4)** | 0.3 |
| Plan participants' contributions | **--** | - | **0.2** | 0.2 |
| Benefits paid | **(3.8)** | (3.7) | **(1.6)** | (1.7) |
| Benefit obligation at end of year | **$ 69.5** | $ 67.5 | **$ 24.6** | $ 24.7 |

MILLIONS OF DOLLARS

## 11. POSTRETIREMENT BENEFITS (continued)

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| **Change in plan assets** | | | | |
| Fair value of plan assets at beginning of year | **$ 54.5** | $ 49.9 | **$ 6.4** | $ 6.1 |
| Actual return on plan assets | **4.2** | 7.9 | **0.2** | 0.7 |
| Employer contribution | **-** | - | **0.3** | 0.1 |
| Benefits paid | **(3.4)** | (3.3) | **(0.5)** | (0.5) |
| Fair value of plan assets at end of year | **$ 55.3** | $ 54.5 | **$ 6.4** | $ 6.4 |
| Funded status | **$ (14.2)** | $ (13.0) | **$ (18.2)** | $ (18.3) |
| Unrecognized actuarial net (gain) loss | **17.9** | 17.0 | **8.8** | 9.2 |
| Unrecognized prior service cost | **0.2** | 0.2 | **-** | - |
| Net amount recognized | **$ 3.9** | $ 4.2 | **$ (9.4)** | $ (9.1) |

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| **Amounts recognized in the Statements of Consolidated Financial Condition consists of:** | | | | |
| Accrued benefit liability | **(11.5)** | (10.4) | **(9.4)** | (9.1) |
| Intangible asset | **0.2** | 0.2 | **-** | - |
| Accumulated reduction in shareowner's equity | **15.2** | 14.4 | **-** | - |
| Net amount recognized | **$ 3.9** | $ 4.2 | **$ (9.4)** | $ (9.1) |

The accumulated reduction in shareowner's equity is recorded in the Statements of Consolidated Financial Condition.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plan with accumulated benefit obligations in excess of plan assets were $69.5, $66.8, and $55.3, respectively, as of October 31, 2004, and $67.5, $64.9, and $54.5, respectively, as of October 31, 2003.

The weighted average rate assumptions used in determining benefit obligations were:

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| Discount rate used to determine present value of benefit obligation at year-end | **5.6%** | 5.8% | **6.0%** | 6.6% |
| Expected rate of increase in future compensation levels | **3.5%** | 3.5% | **N/A** | N/A |

MILLIONS OF DOLLARS

**11. POSTRETIREMENT BENEFITS (continued)**

The weighted average rate assumptions used in determining net benefit cost were:

| | Pension Benefits | | | Other Benefits | | |
|---|---|---|---|---|---|---|
| | **2004** | 2003 | 2002 | **2004** | 2003 | 2002 |
| Discount rate | **5.8%** | 7.2% | 7.4% | **6.5 %** | 7.1% | 7.4% |
| Expected long-term rate of return on plan assets at beginning of year | **9.0%** | 9.0% | 9.8% | **9.0%** | 9.0% | 11.0% |
| Expected rate of increase in future compensation levels | **3.5%** | 3.5% | 3.5% | **N/A** | N/A | N/A |

The Corporation determines its expected return on plan asset assumption by evaluating both historical returns as well as estimates of future returns. The Corporation considers its current asset mix as well as its targeted asset mix when establishing its expected return on plan assets.

The following table sets forth the weighted average percentage of plan assets by category as of October 31:

| | Pension Benefits | | | Other Benefits | | |
|---|---|---|---|---|---|---|
| Asset Category | **Target Range** | **2004** | 2003 | **Target Range** | **2004** | 2003 |
| Equity securities | | | | | | |
| Navistar common stock | | - | - | | 9% | 10% |
| Other equity securities | | 48% | 47% | | 67% | 67% |
| Hedge Funds | | - | - | | 9% | 8% |
| Total equity securities | **45-55%** | **48%** | 47% | **75-85%** | **85**% | 85% |
| Debt securities | | **52%** | 51% | | **14**% | 13% |
| Other, including cash | | **-** | 2% | | **1**% | 2% |
| Total debt securities and other | **45-55%** | **52%** | 53% | **15-25%** | **15**% | 15% |

The Corporation's investment strategy is consistent with its policy to maximize returns while considering overall investment risk and the funded status of the plans relative to its benefit obligations. The Corporation's investment strategy takes into account the long-term nature of the benefit obligations, the liquidity needs of the plans, and the expected risk/return tradeoffs of the asset classes in which the plans may choose to invest. Asset allocations are established through an investment policy, which is updated periodically and reviewed by a fiduciary committee and the board of directors. The Corporation believes that returns on common stock over the long term will be higher than returns from fixed-income securities as the historical broad market indices have shown. Equity and fixed-income investments are made across a broad range of industries and companies to provide protection against the impact of volatility in any single industry or company. Under our policy, hedge funds are limited to no more than 15% of total assets. The long-term performance of our funds generally has outperformed our long-term return assumptions.

**11. POSTRETIREMENT BENEFITS (continued)**

For 2005, the weighted average rate of increase in the per capita cost of covered health care benefits is projected to be 9.8%. The rate is projected to decrease to 5.0% by the year 2009 and remain at that level each year thereafter. The effect of changing the health care cost trend rate is as follows:

| | 1-Percentage-Point Increase | 1-Percentage-Point Decrease |
|---|---|---|
| Effect on total of service and interest cost Components | $ 0.2 | $ (0.2) |
| Effect on postretirement benefit obligation | 2.8 | (2.4) |

On December 8, 2003, the President signed the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) into law. The Act introduces a voluntary prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree healthcare plans that provide prescription drug benefits that are at least actuarially equivalent to Medicare Part D. This subsidy covers a defined portion of an individual beneficiary's annual covered prescription drug costs, and is exempt from federal taxation.

In May 2004, the FASB issued FSP 106-2, which provides guidance on the accounting for the effects of the Act. The corporation adopted the provisions of FSP 106-2 in the third quarter of 2004, retroactive to December 8, 2003. The retroactive application of the Medicare subsidy reduced the corporation's 2004 postretirement benefits expense by $0.4 million. The Corporation reduced accumulated postretirement benefit obligation ("APBO") by $3.7 million at October 31, 2004 and $2.9 million at December 8, 2003 for the subsidy related to benefits attributed to past service. The Corporation used a 6.5% discount rate to value the related APBO at December 8, 2003, which was 0.1 percentage point lower than the discount rate used at October 31, 2003, and caused a $0.2 million increase in the APBO as of that date.

The following estimated benefit payments are payable from the plans to participants:

| | Estimated Benefit Payments | |
|---|---|---|
| Millions of Dollars | Pension Benefits | Postretirement Benefits |
| Year | | |
| 2005 | $ 4.5 | $ 1.7 |
| 2006 | 4.6 | 1.6 |
| 2007 | 4.7 | 1.6 |
| 2008 | 4.8 | 1.7 |
| 2009 | 4.9 | 1.7 |
| 2010 through 2014 | 24.5 | 9.1 |

MILLIONS OF DOLLARS

## 12. COMMITMENTS AND CONTINGENCIES

### Leases

The Corporation is obligated under non-cancelable operating leases for the majority of its office facilities. These leases are generally renewable and provide that property taxes and maintenance costs are to be paid by the lessee. As of October 31, 2004, future minimum lease commitments under non-cancelable operating leases with remaining terms in excess of one year are as follows:

| Year Ended October 31, | |
|---|---|
| 2005 | $ 2.0 |
| 2006 | 1.8 |
| 2007 | 1.1 |
| 2008 | 1.0 |
| 2009 | 0.9 |
| Thereafter | 4.8 |
| Total | $11.6 |

The total operating lease expense for the fiscal year ended October 31 was $1.9 in 2004, $2.3 in 2003 and $2.2 in 2002.

### Guarantees of Debt

The Corporation periodically guarantees the outstanding debt of affiliates. The guarantees allow for diversification of funding sources for the affiliates. As of October 31, 2004, the Corporation has numerous guarantees related to Navistar's three Mexican finance subsidiaries, Servicios Financieros Navistar, S.A. de C.V. ("SOFOL"), Arrendadora Financiera Navistar, S.A. de C.V. ("Arrendadora") and Navistar Comercial S.A. de C.V. The Corporation has no recourse as guarantor in case of default. As of October 31, 2004, the Corporation's maximum exposure under these guarantees is $134.4, the total amount outstanding at that date.

The following table summarizes the borrowings as of October 31, 2004:

| Type of Funding | Maturity | Amount of Guaranty | Outstanding Balance |
|---|---|---|---|
| Revolving credit facility(2) | December 2005 | $ 100.0 | $ 25.0 |
| Medium term note(1) | November 2004 | 43.3 | 43.3 |
| Revolving credit facility(1) | October 2007 | 17.3 | 17.3 |
| Revolving credit facility(1), (3) | Indefinite | 20.8 | 19.7 |
| Revolving credit facility(1), (3) | Indefinite | 17.3 | 11.9 |
| Revolving credit facility(1) | June 2005 | 6.5 | 6.5 |
| Revolving credit facility(1), (4) | June 2005 | 4.3 | 2.0 |
| Revolving credit facility(1) | March 2005 | 8.7 | 8.7 |
| | Total | $ 218.2 | $ 134.4 |

(1) Peso-denominated
(2) Revolving credit facility guaranteed jointly with Navistar
(3) The bank reviews the terms of this facility monthly. This facility may be used for as long as all the conditions and terms are met.
(4) Contract review date June 2005

MILLIONS OF DOLLARS

**12. COMMITMENTS AND CONTINGENCIES (continued)**

**Guarantees of Derivatives**

As of October 31, 2004, the Corporation had guaranteed derivative contracts for foreign currency forwards, interest rate swaps and cross currency swaps related to SOFOL and Arrendadora. The Corporation is liable up to the fair market value of these derivative contracts only in cases of default by SOFOL and Arrendadora.

The following table summarizes the guaranteed derivative contracts as of October 31, 2004:

| Instrument | Maturity | Outstanding Notional | Fair Value |
|---|---|---|---|
| Interest rate swaps and cross currency swaps* | May 2007 | $ 54.4 | $ - |

* Peso-denominated

The Corporation used the foreign currency conversion rate of 11.5 : 1 to convert peso-denominated guarantees to United States dollars.

On July 30, 2004, the Corporation, through Navistar Financial Retail Receivables Corporation (“NFRRC”), sold retail note receivables to a conduit. In order to match fund the fixed rate receivables with the variable rate debt of the conduit, the conduit entered into an interest rate swap agreement on the anticipated cash flows from the receivables. NFC, as servicer, has indemnified the conduit for the impact any variance in those cash flows has on the swap settlement. The Corporation is accounting for this guarantee as a derivative instrument and as of October 31, 2004, has not recorded any liability related to this indemnification.

**Other**

On November 30, 2001, the Corporation completed the sale of all of the stock of Harco National Insurance Company ("Harco"), a wholly-owned insurance subsidiary, to IAT Reinsurance Syndicate Ltd. (“IAT”), a Bermuda reinsurance company. As part of its sales agreement with IAT, the Corporation has agreed to guarantee the adequacy of Harco's loss reserves. There is no limit to the potential amount of future payments required by the Corporation related to this reserve. The sales agreement is scheduled to expire November 2008. The carrying amount of the Corporation's liability under this guarantee is estimated at $0.6 as of October 31, 2004 and is included in Other Liabilities in the Consolidated Statements of Financial Condition. Management believes this reserve is adequate to cover any future potential payments to IAT.

**13. SHAREOWNER’S EQUITY**

The number of authorized shares of capital stock as of October 31, 2004 and 2003 was 2,000,000, of which 1,600,000 shares were issued and outstanding. International owns all issued and outstanding capital stock. No shares are reserved for officers and employees, or for options, warrants, conversions and other rights.

MILLIONS OF DOLLARS

**13. SHAREOWNER'S EQUITY (continued)**

The components of accumulated other comprehensive income (loss), net of taxes, are as follows:

| | Net Unrealized Losses on Investments | Minimum Pension Liability | Accumulated Other Comprehensive Loss |
|---|---|---|---|
| Balance as of October 31, 2001 | $ 1.9 | $ (1.5) | $ 0.4 |
| Change in 2002 | 4.7 | (0.5) | 4.2 |
| Balance as of October 31, 2002 | 6.6 | (2.0) | 4.6 |
| Change in 2003 | (1.2) | (6.9) | (8.1) |
| Balance as of October 31, 2003 | 5.4 | (8.9) | (3.5) |
| Change in 2004 | (1.3) | (0.5) | (1.8) |
| Balance as of October 31, 2004 | $ 4.1 | $ (9.4) | $ (5.3) |

**14. DERIVATIVE FINANCIAL INSTRUMENTS**

The Corporation manages its exposure to fluctuations in interest rates by limiting the amount of fixed rate assets funded with variable rate debt. This is accomplished by selling fixed rate receivables on a fixed rate basis and by utilizing derivative financial instruments. These derivative financial instruments may include forward contracts, interest rate swaps, and interest rate caps. The fair value of these instruments is estimated based on quoted market prices and is subject to market risk as the instruments may become less valuable due to changes in market conditions or interest rates. The Corporation manages exposure to counterparty credit risk by entering into derivative financial instruments with major financial institutions that can be expected to fully perform under the terms of such agreements. The Corporation does not require collateral or other security to support derivative financial instruments with credit risk. The Corporation's counterparty credit exposure is limited to the positive fair value of contracts at the reporting date. As of October 31, 2004, the Corporation's derivative financial instruments had a negative net fair value. Notional amounts of derivative financial instruments do not represent exposure to credit loss.

As of October 31, 2004, the notional amounts and fair values of the Corporation's derivative financial instruments are summarized as follows:

| Inception | Maturity | Instrument | Notional | Fair Value |
|---|---|---|---|---|
| October 2000 | November 2012 | Interest rate cap | $ 500.0 | $ (0.8) |
| October 2000 | November 2012 | Interest rate cap | 500.0 | 0.8 |
| July 2001 | April 2006 | Interest rate swap | 20.5 | (0.5) |
| November 2002 | March 2007 | Interest rate swap* | 19.7 | - |
| October 2003 | April 2008 | Interest rate swap* | - | 0.2 |
| July 2004 | September 2008 | Interest rate swap* | - | - |
| August 2004 | July 2006 | Forward starting swaps* | 100.0 | (0.5) |
| September 2004 | July 2006 | Forward starting swaps* | 50.0 | - |
| September 2004 | July 2006 | Forward starting swaps* | 50.0 | - |
| October 2004 | July 2006 | Forward starting swaps* | 200.0 | - |

* Accounted for as non-hedging instruments.

The fair values of all derivatives are recorded in Other Liabilities on the Statements of Consolidated Financial Condition.

**14. DERIVATIVE FINANCIAL INSTRUMENTS (continued)**

In October 2000, the Corporation entered into a $500.0 retail revolving facility (TRIP) as a method to fund retail notes and finance leases prior to the sale of receivables. Under the agreements of this facility, the Corporation sells fixed rate retail notes or finance leases to the conduit and pays investors a floating rate of interest. As required by the rating agencies, the Corporation purchased an interest rate cap to protect investors against rising interest rates. To offset the economic cost of this cap, the Corporation sold an identical interest rate cap. These transactions are accounted for as hedging derivative instruments.

In July 2001, the Corporation entered into an interest rate swap agreement to fix a portion of its floating rate revolving debt. This transaction is accounted for as a cash flow hedge, and consequently, to the extent that the hedge is effective, gains and losses on the derivative are recorded in other comprehensive income. There has been no ineffectiveness related to this derivative since inception.

In November 2002, the Corporation entered into an interest rate swap agreement in connection with a sale of retail notes and finance leases receivables. The purpose of the swap was to convert the floating rate portion of the asset-backed securities issued into fixed rate interest to match the interest basis of the receivables pool sold to the owner trust, and to protect the Corporation from interest rate volatility. The notional amount of this swap is calculated as the difference between the actual pool balances and the projected pool balances. The outcome of the swap results in the Corporation paying a fixed rate of interest on the projected balance of the pool. To the extent that actual pool balances differ from the projected balances, the Corporation has retained interest rate exposure on this difference. This transaction is accounted for as non-hedging derivative instrument.

In October 2003, the Corporation entered into an interest rate swap agreement in connection with a sale of retail notes and finance leases receivables. The purpose and structure of this swap agreement is similar to the swap agreement entered into in November 2002. This transaction is accounted for as non-hedging derivative instrument.

In August through October 2004, the Corporation, in connection with anticipated sale of retail notes receivables, entered into forward starting swap agreements with a total notional value of $400.0. The purpose of these derivative instruments is to swap floating rate debt to a fixed rate to protect against sharp moves in interest rates between the date of the swap and the anticipated receivable sale date. These derivatives are accounted for as a non-hedging derivative instrument with changes in fair value recognized in income. These derivatives were closed on November 3, 2004.

On July 30, 2004, the Corporation, through Navistar Financial Retail Receivables Corporation ("NFRRC"), sold retail note receivables to a conduit. In order to match fund the fixed rate receivables with the variable rate debt of the conduit, the QSPE entered into an interest rate swap agreement on the anticipated cash flows from the receivables. NFC, as servicer, has indemnified the QSPE for the impact any variance in those cash flows has on the swap settlement. The Corporation is accounting for this guarantee as a derivative instrument and as of October 31, 2004 has not recorded any liability related to this indemnification.

In fiscal 2004, forward starting swap losses were $3.8, compared with $8.7 in 2003 and $9.1 in 2002. The losses are recorded in Income Related to Sales of Finance Receivables.

**15. SALES OF RECEIVABLES**

The Corporation securitizes and sells receivables through NFRRC, Navistar Financial Securities Corporation ("NFSC"), Truck Retail Accounts Corporation ("TRAC") and Truck Engine Receivables Financing Co. ("TERFCO"), all special purpose, wholly-owned subsidiaries ("SPC's") of the Corporation. The sales of receivables in each securitization constitute sales under accounting principles generally accepted in the United States of America, with the result that the sold receivables are removed from the Corporation's balance sheet and the investor's interests in the related trust or conduit are not reflected as liabilities.

In fiscal 2004, the Corporation sold $195.0 of finance receivables during the quarter ended January 2004, $600.0 during the quarter ended April 2004, and $325.0 during the quarter ended July 2004 to trusts and conduits which, in turn, issued asset-backed securities that were sold to investors. The Corporation sold the retail notes and finance leases receivables, net of unearned finance income, through NFRRC. Pre-tax gains of $25.9 were recognized on the sales. In fiscal 2003, the Corporation sold $1,705.0 of finance receivables to trusts which, in turn, issued asset-backed securities. Aggregate gains of $46.3 were recognized on the sales. In fiscal 2002, the Corporation sold $1,000.0 of finance receivables to trusts which, in turn, issued asset-backed securities. Aggregate gains of $16.4 were recognized on the sales.

As of October 31, 2004, NFSC has in place a revolving wholesale note trust that provides for the funding of up to $1,186.3 of eligible wholesale notes. The trust is comprised of a $200.0 tranche of investor certificates maturing in 2008, three $212.0 tranches of investor certificates maturing in 2005, 2006, and 2007, variable funding certificates with a maximum capacity of $200.0 maturing in February 2005 and a seller certificate of $150.3. As of October 31, 2004, the Corporation had utilized $1,132.3 of the revolving wholesale note trust.

During the second quarter of 2004, TRAC obtained financing for its retail accounts with a bank conduit that provides for the funding of up to $100.0 million of eligible retail accounts. The revolving retail account facility expires in April 2005. The sales of retail accounts under TRAC constitute sales under generally accepted accounting principles in the United States of America, with the result that the sold accounts are removed from the Corporation's balance sheet and the investor's interests are not reflected as liabilities. TRAC is a separate corporate entity, and its assets will be available first and foremost to satisfy the claims of the creditors of TRAC. As of October 31, 2004, this facility was fully utilized.

As of October 31, 2004, TERFCO has in place a revolving trust that provides for the funding of up to $100.0 of eligible Ford Motor Company accounts receivables. This facility, which will expire in 2005, was fully utilized as of October 31, 2004. TERFCO is a separate corporate entity, and its assets will be available first and foremost to satisfy the claims of the creditors of TERFCO.

The SPC's have limited recourse on the sold receivables. The SPC's assets are available to satisfy the creditors' claims prior to such assets becoming available for the SPC's own uses or to the Corporation or affiliated companies. The terms of receivable sales generally require the Corporation to provide credit enhancements in the form of overcollateralizations and/or cash reserves with the trusts and conduits. The use of such cash reserves by the Corporation is restricted under the terms of the securitized sales agreements. The maximum exposure under all receivable sale recourse provisions as of October 31, 2004 was $383.4.

MILLIONS OF DOLLARS

**15. SALES OF RECEIVABLES (continued)**

The SPC's retained interests in the related trusts or assets held by the trusts are reflected on the Corporation's Statement of Consolidated Financial Condition in Amounts Due From Sales of Receivables. The following is a summary of Amounts Due from Sales of Receivables:

| | **2004** | 2003 |
|---|---|---|
| Cash held and invested by trusts | **$ 127.8** | $ 134.6 |
| Subordinated retained interests in wholesale notes | **155.5** | 147.6 |
| Interest-only receivables | **89.1** | 68.5 |
| Other amounts due | **11.0** | (1.7) |
| Total amounts due from sales of receivables | **$ 383.4** | $ 349.0 |

Subordinated retained interests in wholesale notes consist principally of wholesale notes or marketable securities. Due to the short-term nature of these assets, their fair value approximates carrying value.

EITF 03-1 paragraph 21 requires specific disclosure for all investments in an unrealized loss position for which other than temporary impairments have not been recognized. The Corporation's only temporary impairment relates to interest-only receivables. The interest-only receivable fair value and unrealized loss is disclosed below:

| | Less than 12 Months | |
|---|---|---|
| | Fair Value | Unrealized Losses |
| Interest-only receivables | $ 16.1 | $ 1.7 |

The corporation has the intent and ability to hold these investments until maturity or market price recovery

Management estimates the prepayment speed for the receivables sold, expected net credit losses and the discount rate used to determine the present value of the interest-only receivables in order to calculate the gain or loss. Estimates of prepayment speeds, expected credit losses, and discount rates are based on historical experience, anticipated future portfolio performance and other factors and are made separately for each securitization transaction. In addition, the Corporation estimates the fair value of the retained interests on a quarterly basis utilizing updated estimates of these factors.

The impact of a hypothetical 10% adverse change in these assumptions would have no material effect on the fair value of the retained interests as of October 31, 2004. These sensitivities are hypothetical and should be used with caution. The effect of a variation of a particular assumption on the fair value of the retained interests is calculated without changing any other assumption: In reality, changes in one factor may result in changes in another.

Key economic assumptions used in measuring the retained interests at the date of the sale for sales of retail notes and finance leases completed during the fiscal year ended October 31 were:

| | **2004** | 2003 | 2002 |
|---|---|---|---|
| Prepayment speed (average monthly ABS) | **1.2 - 1.4** | 1.2 – 1.4 | 1.2 – 1.4 |
| Weighted average life | **43 months** | 43 months | 41 months |
| Expected net credit losses | **0.55%** | 0.76% | 0.68% |
| Interest-only receivable discount rate | **15.2% - 15.3%** | 15.5% - 18.1% | 16.9% - 18.2% |
| Reserve account discount rate | **3.2% - 4.1%** | 3.1% - 4.4% | 5.1% - 5.6% |

MILLIONS OF DOLLARS

**15. SALES OF RECEIVABLES (continued)**

Static pool losses are calculated by summing the actual and projected future net credit losses and dividing them by the original balance of the notes and leases in each pool of assets. The amount shown below for each year is calculated based on all securitizations occurring in that year.

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Actual and Projected Net Credit Losses (%) as of: | | | |
| October 31, 2004 | 0.55% | 0.43% | 0.21% |
| October 31, 2003 | | 0.76 | 0.68 |
| October 31, 2002 | | | 0.68 |

The financial data for gross serviced portfolio as of October 31 is summarized below.

| **2004** | **Retail & Finance Lease** | **Wholesale** | **Accounts** | **Total** |
|---|---|---|---|---|
| Serviced portfolio | **$ 2,757.7** | **$ 1,305.2** | **$ 488.1** | **$4,551.0** |
| Less sold receivables | **1,942.9** | **1,132.3** | **200.0** | **3,275.2** |
| Owned portfolio | **$ 814.8** | **$ 172.9** | **$ 288.1** | **$1,275.8** |

| 2003 | Retail & Finance Lease | Wholesale | Accounts | Total |
|---|---|---|---|---|
| Serviced portfolio | $ 2,506.5 | $ 860.7 | $ 401.3 | $3,768.5 |
| Less sold receivables | 1,986.6 | 814.7 | 100.0 | 2,901.3 |
| Owned portfolio | $ 519.9 | $ 46.0 | $ 301.3 | $ 867.2 |

Additional financial data for gross serviced portfolio as of October 31, 2004 is summarized below.

| | Retail Notes | Finance and Operating Leases | Wholesale Notes | Accounts |
|---|---|---|---|---|
| Gross serviced receivables | $ 2,867.8 | $ 428.3 | $ 1,305.6 | $ 488.9 |
| Balances with payments past due over 60 days (1) | 8.8 | 1.2 | 1.1 | 6.7 |
| Credit losses (net of recoveries) | 10.1 | 0.4 | 0.8 | 1.1 |

(1) Includes rent past due over 60 days for Operating Leases

Certain cash flows received from (paid to) securitization trusts/conduits were as follows for fiscal years:

| | **2004** | 2003 | 2002 |
|---|---|---|---|
| Proceeds from sales of finance receivables | **$ 1,118.6** | $1,701.1 | $ 999.0 |
| Proceeds from sales of finance receivables into revolving facilities | **6,371.8** | 4,938.1 | 4,883.0 |
| Servicing fees received | **30.3** | 27.5 | 26.9 |
| Repurchase of receivables in breach of terms (1) | **(28.0)** | (69.0) | (128.9) |

MILLIONS OF DOLLARS

## 15. SALES OF RECEIVABLES (continued)

| | **2004** | 2003 | 2002 |
|---|---|---|---|
| Cash used in exercise of call options | **(86.9)** | (139.5) | (85.4) |
| Servicing advances, net of reimbursements, related to repossessions | **5.2** | 6.8 | 27.7 |
| Cash received upon release from reserve accounts | **90.9** | 83.4 | 125.1 |
| All other cash received from trusts | **89.5** | 103.9 | 94.1 |

(1) The Corporation, as servicer, covenants that it will not amend the terms of the receivables. Refinances and extensions, which change the finance yield, require the Corporation to repurchase the receivables from the trust/conduit.

The following table summarizes income related to sales of finance receivables:

| | **2004** | 2003 | 2002 |
|---|---|---|---|
| Gains on sales of receivables | **$ 25.9** | $ 46.3 | $ 16.4 |
| Discount accretion | **28.4** | 28.1 | 23.9 |
| Fair value adjustment | **(0.4)** | (2.1) | (1.0) |
| Derivative gains (losses) | **(3.8)** | (8.7) | (9.1) |
| Interest income and other | **3.4** | 3.3 | 5.2 |
| Total income related to sales of finance receivables | **$ 53.5** | $ 66.9 | $ 35.4 |

## 16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of the Corporation's financial instruments as of October 31 were as follows:

| | **2004** | | 2003 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| Financial assets: | | | | |
| Finance receivables | | | | |
| Retail notes and finance leases | **$ 814.8** | **$ 784.7** | $ 519.9 | $ 538.6 |
| Wholesale notes | **173.3** | **173.3** | 46.0 | 46.0 |
| Restricted Marketable securities | **63.0** | **63.0** | 505.6 | 505.6 |

| | **2004** | | 2003 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| Financial liabilities: | | | | |
| Senior and subordinated debt | **1,325.2** | **1,312.7** | 1,461.9 | 1,462.9 |
| Derivative financial instruments | **0.2** | **0.2** | (1.3) | (1.3) |

The carrying amount of cash and cash equivalents approximates fair value.

The fair value of retail notes and finance leases is estimated by discounting the future contractual cash flows using an estimated discount rate reflecting interest rates currently being offered for notes with similar terms. For wholesale notes, which reprice monthly, the carrying amounts approximate fair value as a result of the short-term nature of the receivables.

### 16. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

For fixed rate debt, the fair value is estimated based on quoted market prices where available and, where not available, on quoted market prices of debt with similar characteristics. For variable rate debt the fair values approximate their carrying value.

The estimated fair values for all other financial instruments approximate their carrying values due to the short-term nature or variable interest terms inherent in the financial instruments.

### 17. LEGAL PROCEEDINGS

The Corporation is subject to various claims arising in the ordinary course of business, and is party to various legal proceedings, which constitute ordinary routine litigation incidental to the business of the Corporation. In the opinion of the Corporation's management, none of these proceedings or claims are material to the business or the financial condition of the Corporation.

On February 9, 2005, the Corporation received a notice from the staff of the United States Securities and Exchange Commission stating that it was conducting an informal inquiry into the Corporation's restatement of financial results for the fiscal years 2002 and 2003 and the first three quarters of fiscal 2004 ("restatement period"). The staff has requested that the Corporation voluntarily produce documents and information related to the restatement period. The Corporation is fully cooperating with this request. Given the preliminary nature of the matter, the Corporation is not able to predict what impact, if any, this inquiry will have on the Corporation.

## Report of Independent Registered Public Accounting Firm

Navistar Financial Corporation,
Its Directors and Shareowners:

We have audited the Statement of Financial Condition of Navistar Financial Corporation and its subsidiaries (the "Corporation") as of October 31, 2004 and 2003, and the related Statements of Income, Comprehensive Income and Cash Flow for each of the three years in the period ended October 31, 2004. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Navistar Financial Corporation and its subsidiaries at October 31, 2004 and 2003, and the results of their operations and their cash flow for each of the three years in the period ended October 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the accompanying 2003 and 2002 financial statements have been restated.

/s/ DELOITTE & TOUCHE LLP
Deloitte & Touche LLP
February 14, 2005
Chicago, Illinois

## SUPPLEMENTARY FINANCIAL DATA

MILLIONS OF DOLLARS

### QUARTERLY FINANCIAL INFORMATION (unaudited)

| | Previously Reported 2004 | | |
|---|---|---|---|
| | 1ST Quarter | 2ND Quarter | 3RD Quarter |
| Results | | | |
| Revenues | **$ 47.5** | **$ 69.5** | **$ 56.8** |
| Interest expense | **11.7** | **11.4** | **8.8** |
| Provision for credit losses | **1.1** | **3.3** | **2.1** |
| Net income | **7.9** | **20.1** | **15.0** |

| | Restated 2004 | | |
|---|---|---|---|
| | 1ST Quarter | 2ND Quarter | 3RD Quarter |
| Results | | | |
| Revenues | **$ 51.8** | **$ 71.0** | **$ 53.3** |
| Interest expense | **11.7** | **11.4** | **8.8** |
| Provision for credit losses | **1.1** | **3.3** | **2.1** |
| Net income | **9.1** | **20.6** | **12.4** |

| | 2004 | |
|---|---|---|
| | 4TH Quarter | Fiscal Year |
| Results | | |
| Revenues | **$ 63.0** | **$239.1** |
| Interest expense | **9.0** | **40.9** |
| Provision for credit losses | **1.7** | **8.2** |
| Net income | **19.0** | **61.1** |

**QUARTERLY FINANCIAL INFORMATION (unaudited)**

| | Previously Reported 2003 | | | | |
|---|---|---|---|---|---|
| | 1ST Quarter | 2ND Quarter | 3RD Quarter | 4TH Quarter | Fiscal Year |
| Results of continuing operations | | | | | |
| Revenues | $ 86.3 | $ 47.8 | $ 75.7 | $ 56.9 | $ 266.7 |
| Interest expense | 13.5 | 12.6 | 12.0 | 11.7 | 49.8 |
| Provision for credit losses | 4.2 | 3.7 | 4.0 | 3.9 | 15.8 |
| Income from continuing operations | 26.9 | 2.1 | 22.3 | 8.6 | 59.9 |
| Gain (loss) on disposal of discontinued operations | - | - | - | (2.4) | (2.4) |
| Net income | 26.9 | 2.1 | 22.3 | 6.2 | 57.5 |

| | Restated 2003 | | | | |
|---|---|---|---|---|---|
| | 1ST Quarter | 2ND Quarter | 3RD Quarter | 4TH Quarter | Fiscal Year |
| Results of continuing operations | | | | | |
| Revenues | $ 76.9 | $ 52.5 | $ 69.2 | $ 63.9 | $ 262.5 |
| Interest expense | 13.5 | 12.6 | 12.0 | 11.7 | 49.8 |
| Provision for credit losses | 4.2 | 3.7 | 4.0 | 3.9 | 15.8 |
| Income from continuing operations | 19.1 | 6.4 | 16.5 | 15.9 | 57.9 |
| Gain (loss) on disposal of discontinued operations | - | - | - | (2.4) | (2.4) |
| Net income | 19.1 | 6.4 | 16.5 | 13.5 | 55.5 |

**Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

The Corporation's principal executive officer and principal financial officer, along with other management of the Corporation, reviewed and tested the Corporation's disclosure controls and procedures (as defined in rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("the Exchange Act")) as of October 31, 2004. Based on that evaluation, the principal executive officer and principal financial officer of the Corporation concluded that, as of October 31, 2004, there were material weaknesses in the Corporation's disclosure controls and procedures related to (1) a misapplication of GAAP related to securitization accounting and an associated lack of timely resolution of outstanding reconciling items in certain collection accounts; and (2) the lack of sufficient specialized securitization accounting personnel. The material weakness related to the misapplication of GAAP and resolution of outstanding reconciling items have been corrected in these statements.

Management had previously interpreted and applied Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement 125" and Emerging Issues Task Force ("EITF") No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets, " in error related to the Corporation's securitization of retail note and finance lease receivables. The Corporation also corrected its tax treatment and deferred tax assets related to these securitizations as well as for its secured borrowings related to operating and finance leases. As a result, the Corporation is restating its financial statements for the two fiscal years ended October 31, 2003 and 2002. The Corporation will restate its interim periods for 2004 in its 2005 quarterly reports.

The principal executive officer and principal financial officer of the Corporation concluded, based on the weaknesses noted above, as of October 31, 2004, the disclosure controls and procedures in place at the Corporation were not effective. Management has strengthened its controls and procedures over the application of accounting standards and is in the process of adding specialized securitization accounting personnel. Therefore management believes that the circumstances resulting in the misapplication of GAAP will not reoccur.

**Changes in Internal Control over Financial Reporting**

In connection with the ongoing review of the Corporation's internal controls over financial reporting (as defined in rule 13a-15(f) and 15d-15(f) under the Exchange Act) and in response to the material weaknesses identified, the Corporation has increased executive management education in securitization accounting, made improvements to its securitization accounting reconciliation process and added additional levels of review in its financial reporting processes. The Corporation intends to supplement its current accounting resources with personnel knowledgeable in securitization accounting.

**Item 9B. Other Information**

None.

## PART III

**Items 10, 11, 12 and 13**

Intentionally omitted. See the index page of this Report for explanation.

**Item 14. Principal Accountant Fees and Services**

Aggregate fees billed to the Corporation for the fiscal years ended October 31, 2004 and 2003 by the Corporation's principal accounting firm, Deloitte & Touche LLP.

| Amounts in thousands | **2004** | 2003 |
|---|---|---|
| Audit Fees | | |
| Basic Audit Fees [a] | **$ 918.6** | $ 138.6 |
| Audit Related Fees [b] | **192.5** | 199.0 |
| Total Audit Fees | **$ 1,111.1** | $ 337.6 |
| Tax Fees | **$ -** | $ - |
| All Other Fees | **$ -** | $ - |

(a) Includes fees for the restatement of the Corporation's financial statements for fiscal years 2003 and 2002.

(b) Includes fees for (i) examination reports on the Corporation's minimum servicing standards for its securitization transactions, (ii) Sarbanes Oxley Section 404 readiness, and (iii) data verification and agreed-upon procedures related to asset securitizations.

**Audit Committee pre-approval policy**

Information required by Item 14 of this Form and the audit committee's pre-approval policies and procedures regarding the engagement of the principal accountant are incorporated herein by reference from Navistar's definitive Proxy Statement for the March 23, 2005, Annual Meeting of Shareowners under the caption "Audit Committee Report – Independent Auditor Fees".

## PART IV

**Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K**

**Exhibits, Including Those Incorporated By Reference,
and Financial Statement Schedules**

Exhibits Index:



**Financial Statements**

See Index to Financial Statements in Item 8.

**Reports on Form 8-K**

No reports on Form 8-K were filed for the three months ended October 31, 2004.

## SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NAVISTAR FINANCIAL CORPORATION
(Registrant)

By: /s/PAUL MARTIN
Paul Martin
Vice President and Controller
(Principal Accounting Officer)

February 14, 2005